SUMMARY

OF

LORD MINTO'S ADMINISTRATION

IN THE

FINANCE DEPARTMENT.

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PART I.—REVIEW OF IMPORTANT MEASURES.

CHAPTER I.

THE GOLD STANDARD AND CURRENCY SYSTEM.

Introductory.

Lord Minto assumed office on the 18th November 1905 and this summary deals with events which have taken place up to the end of July 1910. *Introductory.*

A.—Exchange and the Gold Standard Reserve.

2. Though the question of exchange no longer exercises a dominating influence in Indian finance, it has forced itself into considerable prominence during the last three years. When Lord Curzon's administration closed, there was every indication that the machinery for the maintenance of a fixed rate of exchange was working smoothly and efficiently. For three years in succession exchange had been on an average rather above than below gold point; the investments of the Gold Reserve Fund stood on the 31st March 1905 at £8,376,631, while liquid gold to the value of £10,739,139 had accumulated in the Paper Currency Reserve. It was estimated that some £9½ millions of gold had passed into general circulation in the hands of the public. In spite of the increase of gold in use, the circulation of the note currency had expanded, while the interests of trade had been accommodated by an unprecedented increase to the silver coinage. The course of this summary will show that the conditions continued to be equally favourable throughout 1905-6. It was not until the latter part of the year 1907 that *Position of the Currency question at the close of Lord Curzon's administration.*

they began to cause any anxiety; but from that date onwards down to September 1908 they were such as to make it necessary for Government to take active steps to support the stability of exchange. The currency machinery was seriously tested for the first time. That test revealed no serious defect in its working; but the experience afforded invaluable data for judging of the progress which had already been made in protecting the gold standard, and caused in at least one respect a marked development of the theory hitherto held regarding the employment of the Gold Standard Reserve.

Exchange and the Gold Standard Reserve in 1905-6; expanding sale of Council Bills by Secretary of State.

3. It has already been stated that the history of the earlier part of the period to which this summary relates presents no features of unusual interest. The average rate obtained for Council drafts in 1905-6 was 1*s*. 4·042*d*. During the year the sales of Council bills and telegraphic transfers by the Secretary of State were exceptionally heavy. In the five years preceding 1903-4 they had averaged £18,653,000; during the three years 1903-4 to 1905-6 they rose to an average of £26,484,000, the sale in 1905-6 being £26,290,640, exclusive of £4,876,000 remitted on account of the Gold Reserve Fund and paper currency investment. It is important in this connection to note that this increase was due primarily not to the Secretary of State's requirements for Home charges, but to the growth in trade demands for remittances to finance the export trade of India. While of course it is open to the trade to meet its requirements by exporting gold to this country, it is clear that, until gold is in active circulation in India, there is little use in our encouraging traders to resort to this measure. If the sale of Council bills is restricted, gold will be shipped and tendered for conversion into rupees after only a slightly longer interval, while the stoppage of telegraphic transfers disorganizes trade and merely defers the eventual demand for rupees. The gold so tendered accumulates in the Currency Reserve and its consequent reshipment to Europe is effected at the expense of Government. To avoid this result it has been the policy of late years to sell Council drafts freely in order to supply the trade demand as fully as possible. A further development of the same policy has taken the form of selling telegraphic transfers against shipments of gold from Australia, which are in this way diverted from India to London. The growth of the currency policy has thus swept away the old limitation which confined the sale of transfers to the amount of the Secretary of State's sterling requirements, and Government has found it to its own advantage, no less than to the advantage of trade, to take on itself temporarily what would in ordinary circumstances be regarded as purely a banking function. The extended use made of Council bills as a means of ordinary trade remittance during the year 1905-6 did not prevent the despatch of very considerable quantities of gold to India, with the result that while the Gold Standard Reserve investments had amounted in March 1906 to £12,165,000, the gold and gold securities held in the Paper Currency Reserve had at the same date risen to £12,205,000. The Standard Reserve gold was invested in Consols, in National war loan stock, Transvaal Government guaranteed stock, Local loans stock, and a portion in Treasury bills. The heavy accumulation of gold in the Paper Currency Reserve enabled Government to give effect to the arrangement sanctioned in the Secretary of State's despatch No. 236, dated 29th June 1905, for establishing a branch of the Paper Currency Reserve in London, and in the course of the year 1905-6 a sum of £6,000,000 was remitted to England for this purpose, a further £1,045,000 being obtained from the proceeds of

The establishment of the London Branch of the Paper Currency Reserve.

Council bills sales. The gold is held by the Bank of England on behalf of the Secretary of State. The step was not clearly understood by the public at the time, and Sir E. Baker in the course of his speech on the budget of 1906-7 found it necessary to explain at some length the real nature of the transaction. The reasons given by him are reproduced below, and it is important to note in the light of the discussions which took place in 1907 and 1908 how restricted were the functions which the Government of India were at the time prepared to assign to the London branch of the Currency Reserve :—

(1) When held in London the gold is one stage nearer the point at which it becomes practically effective for its primary purpose of securing the encashment of currency notes. So long as gold is not in active circulation in India, what the presenter of currency notes requires is not sovereigns but rupees, and the silver bullion which must be purchased for the coinage of these can ordinarily only be procured in Europe and not in this country.

(2) It enables the Secretary of State to effect his purchases of silver in the promptest and most convenient manner as occasion may require, and without the publicity attendant on the shipment of gold from India. It is open to him either to treat the silver so purchased from the first as a portion of the reserve, or, if preferred, to pay for it in the first instance from his Treasury balances, and then subsequently to recoup these from the currency chest.

(3) It also affords a method which might in certain circumstances be very useful of speedily replenishing the Secretary of State's Treasury balances. If at any time the demand for Council bills should be insufficient to supply his current requirements, it would be possible for him to transfer a part of the gold in his currency chest to his Treasury account, a corresponding transfer of either rupees or gold being simultaneously made in India from Treasury to Currency.

(4) Conversely, it affords a means of giving relief to Indian Treasury balances when the trade demand for Council drafts is too large for them to meet. In such a case, it would be possible for the Secretary of State to pay the sale-proceeds of the Councils into his currency chest, thereby setting free an equivalent amount in rupees in India, which would be available for meeting the drafts.

(5) Lastly, it facilitates the prompt investment of the receipts of the Gold Reserve Fund. When profits on coinage accrue in India, the Secretary of State can at any moment draw the equivalent amount from his currency chest and invest it, a corresponding transfer being made in this country from the balance of the Gold Reserve Fund to Currency.

Exchange in 1906-7 and growth of Gold Standard Reserve.

4. In the following year 1906-7 exchange maintained an average of 1*s*. 4·083*d*. The sale of Council bills continued to increase and during the year amounted to no less than £32,907,196. As in the preceding year the increase in sales was mainly in the interests of trade; and in December 1906 the Secretary of State decided, in pursuance of this principle, to sell telegraphic transfers freely at rates not exceeding $16\frac{3}{16}d.$ As a result of this step the total amount of telegraphic transfers taken in the last four months of 1906-7 amounted to £13⅔ millions against £11⅔ millions taken during the whole of 1905-6. In the earlier part of the year the stock of gold held in the two reserves was somewhat reduced, owing to the increased demand for sovereigns for local circulation in India; and the purchases by the Secretary of State of Australian gold in transit had to be discontinued from June 1906 to January 1907 in order to permit of the stock being replenished. But the large payments made by the traders in London in exchange for telegraphic transfers during the winter brought the total stock up to its former level at the close of the year. The actual total held was £12 millions invested on account of the Gold Standard Reserve and £10⅔ millions of liquid gold in

the Paper Currency Reserve, of which £3⅜ millions were held in India and the remainder in London. There were in addition sterling securities of the purchase value of £1⅓ millions in the Currency Reserve.

Decision to establish a silver branch of Gold Standard Reserve.

5. It is necessary to note at this point an important evolution in the history of the Gold Reserve Fund which took effect during the year. The great trade demand for rupees since 1900 had forced on the attention of the Government of India the necessity for maintaining a reserve of silver bullion. The summary of Lord Curzon's administration* shows that on more than one occasion the stock of rupees in the Currency Reserve fell so low as seriously to imperil the credit of the paper currency circulation. The reserve of silver bullion which had been accumulated to meet this situation developed in 1904 into the ingot reserve, a mass of partly prepared silver sufficient for the coinage of 3 crores of rupees. This was kept in the mints as part of the Currency Reserve, and was originally designed to be used for coinage only in case of emergency. It had, however, a short life in its original form. The very heavy trade demand in the latter half of 1905 and the beginning of 1906 searched out its weak points. They showed that it blocked up space in the Currency Reserve, and that it was too small to be an effective line of reserve in a time of great trade activity. The whole of the ingot reserve was coined and drawn upon in the three months ending in January 1906, but notwithstanding this the stock of the currency rupees fell at the end of that month to 7½ crores against a total note circulation of nearly 40 crores. A large increase in the reserve was clearly necessary, but all the circumstances indicated that if the reserve was to be adequate it must be held outside the Currency Reserve. From this central idea was developed the plan of funding a silver reserve in the same way as the gold reserve. The Secretary of State had in January 1906† agreed to the ingot reserve being raised from 300 to 600 lakhs of tolas, and in April 1906‡ he was approached with a proposal that this enlarged silver reserve should be placed in the Gold Standard Reserve. It was to be built up out of the profits of coinage to a maximum which was provisionally fixed at 6 crores of rupees. Whenever the uninvested profits exceeded that amount they were to be converted into gold and invested in the usual manner.

The silver branch of the Gold Standard Reserve; principles on which it was established.

6. This expedient has been at various times the mark for a great deal of public criticism, and it is well to describe briefly the reasons which induced Government to connect the provision of a silver reserve with the Gold Reserve Fund. The ideal method of providing a reserve would no doubt be to purchase silver bullion from revenue or loan funds, and to hold it as we hold stocks of rails or military stores for mobilisation. This plan however had to be discarded because of its costliness. It would have involved either the reduction of the cash balances by £2¾ mililons sterling (which was altogether beyond their capacity to bear) or the borrowing of an equivalent amount in the open market. This would have imposed a permanent charge of some £80,000 a year on Indian revenues and would have added to the difficulty already experienced in obtaining by loan the considerable sum now needed for productive capital expenditure. At the same time it would be impossible to hold so large an amount as 600 lakhs of tolas of silver as part of the Paper Currency Reserve. The value of the metallic reserve

* Summary, pages 11, 12.
† Secretary of State's telegram, dated the 11th January 1906.
‡ Government of India despatch No. 144, dated the 20th April 1906.

is limited by the volume of the note circulation and the amount of the Paper Currency investment, which is fixed by statute at 12 crores. All bullion held within the Currency Reserve must therefore displace legal tender coin of equal value. The stock of rupees in the Currency Reserve can only be increased either by reducing the investment, or by reducing the stock of gold held in the Reserve. The former would be wasteful; the latter would involve the reduction both of the sum held in the London currency chest in order to provide for the periodical purchase of silver, and of the provision maintained in India to meet the demand for gold as a circulating medium. The latter alternative would be no less undesirable than the former.

7. No course therefore remained but to form a silver branch of the *The same.* Gold Reserve Fund. The precise manner in which this reserve was to be utilised was carefully indicated* by the Government of India. If it had to be drawn upon, the silver would be taken into the Currency Reserve and its equivalent in gold paid to the Gold Reserve Fund. The share of the payment which represented the profits on the coinage of the transferred silver would be sent to London for investment in the usual course, and the balance would be used in the purchase of silver to bring up the silver reserve roughly to the same strength as before the transfer. It had originally been proposed to hold the reserve in the form of ingots, ready assayed and alligated. But this course involved delay, and it was eventually decided† to coin up the whole of the existing silver reserve, and to pay all the future profits of coinage into it in the form of rupees until the prescribed limit of 600 crores of rupees had been reached.

8. In thus linking up the silver reserve with the Gold Reserve Fund *The same.* there was nothing inconsistent with the purposes for which that fund had been created. Formerly, when silver was purchased for coinage, the procedure, when stripped of incidental complications, had been as follows:—First, the silver was paid for with gold, which was either actually or constructively withdrawn from the Paper Currency Reserve for the purpose. Secondly, so much of the bullion as was required, at the standard rate of exchange, to replace the gold was coined into rupees, thus bringing up the reserve to the amount required by law. Thirdly, the surplus bullion also was then coined into rupees, the amount thus obtained constituting the "profit on coinage" from which the Gold Reserve Fund has been built up. Fourthly, the rupees thus coined were exchanged for gold. Lastly, the gold was remitted to England for investment in interest-bearing sterling securities. The introduction of a silver branch of the fund has the effect of arresting—but only temporarily arresting—this process at the end of the third stage; *i.e.*, the rupees which form the "profit on coinage," instead of being at once exchanged for gold and invested in sterling securities, are retained intact until required for actual use. They are held entirely apart from the Treasury balances. They will eventually be exchanged for gold and invested, but this process will be deferred till the demand for rupees requires it. As the amount thus held uninvested is not earning interest in the meantime the only permanent effect of the new system is to make the Gold Reserve Fund bear the charge for interest on the capital locked up in the stock of rupees which has taken the place of the ingot reserve, instead of imposing it on current revenues.

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* Despatch to Secretary of State, No. 144, dated the 26th April 1906.
† Secretary of State's despatch No. 135 (Finance), dated the 16th November 1906.

Further note on the position of the silver branch of the Gold Reserve Fund in the development of currency policy.

9. Effect was given to the new arrangement towards the end of 1906. The original intention was to hold 4 crores of the reserve in Bombay and 2 crores in Calcutta; but in connection with the extension of the "universal" five rupee note to Burma, part of the reserve is now held in Rangoon. To prevent misunderstanding the name of the Gold Reserve Fund was changed into that of the Gold Standard Reserve. It would not be untrue to say that with this alteration in title the whole policy of currency regulation had moved a step forward. The situation, as now understood by the Government of India, was briefly as follows: As the currency policy has two main aspects, so also it has two branches. One side of our policy consists in maintaining a fixed (and at present an artificial) gold value for the rupee. To ensure that this value is maintained, and to protect the Secretary of State from having to sell Council bills at a lower rate of exchange, we keep a reserve of gold securities in London. The other side of the policy embraces an obligation to give rupees in India in exchange for sovereigns tendered either in London or India. To meet this obligation we keep a reserve of silver in India to supplement the store of rupees in case of a run upon it. The need to draw on the Gold Standard Reserve, when it arises, indicates a shortage of a medium of currency, not a shortage of funds. When any part of the silver reserve is used, it must at once be replaced either by silver or by gold; for it represents profits of coinage which Government are pledged to keep separate from their ordinary resources. This statement of the case indicates the exact limits which the Government of India were inclined to place at the time on the use of the investments of the Gold Standard Reserve. The limits which it was prepared to place on the use of the gold in the Paper Currency Reserve have already been indicated; the currency gold held in London was meant to be freely and immediately available for the purchase of silver whenever required for coinage, but was not intended to be used for any other purpose except temporary assistance to the Home Treasury at times when it is not desired to draw Council bills.

Development of the theory of the use of the English branch of the currency reserve; divergent views of the Secretary of State and Government of India.

10. The current theories on the points above referred to came under review more than once in correspondence with the Secretary of State during the years 1905-6 and 1906-7. In December 1905, when the pressure of the busy season was at its worst, the Secretary of State was informed* that there was a difficulty in meeting his drafts and asked to transfer £½ million from his Treasury balances to his currency chest, in order that the Indian Treasury might take corresponding assistance from currency. The proposal was not at first accepted.† The time was considered inopportune for withdrawing gold from the Bank of England's reserves, and it was only when the urgency of the stress in India was emphasised that the step was taken‡ by the Secretary of State. In the following January§ an order for £2½ millions of silver was sent home for the purpose of doubling the ingot reserve, and it was again requested that payment should be made for it from the paper currency gold held in London for that purpose. The recommendation was accepted‖ on this occasion, but two months later a further purchase of £1 million of silver was made by the Secretary of State through the treasury accounts and not from currency. In May 1906 a more definite develop-

* Telegram from the Government of India, dated the 14th December 1905.
† Secretary of State's telegram, dated the 16th December 1905.
‡ Secretary of State's telegram, dated the 19th December 1905.
§ Telegram from the Government of India, dated the 4th January 1906.
‖ Telegram from the Secretary of State, dated the 11th January 1906.

ment took place. The Secretary of State suggested* that a further consignment of silver should be paid for by the employment of part of the Gold Standard Reserve, which had been put temporarily into Treasury bills, maturing in July and September. The Government of India met† the suggestion by emphasising their view, alluded to in the preceding paragraph, of the distinction between the functions of the Gold Standard Reserve and the currency gold. For the time being this view was accepted‡ by the Home Government; but a further despatch § from the Secretary of State added a new consideration to the discussion of the problem. The Secretary of State objected to the depletion of the currency chest in London by purchases of silver, and enunciated the view that a considerable gold holding (£6 millions as a minimum) in the currency reserve and Treasury balances in England and India combined would be of advantage to India in maintaining exchange and establishing public confidence in the gold standard. It is not necessary to point out here how wide a departure this proposition exhibited from the original doctrine on the subject of the distinctive use of the gold in the currency reserve, which certainly did not contemplate its employment as a first line of defence for the gold standard. The Government of India had not an opportunity of fully restating their own view of the case until February of the following year.|| Meanwhile the question of the position of the currency gold reserve and of its influence on the London market had again come into prominence. In October 1906 the Secretary of State suggested¶ that part of the currency gold in London should be released and lent out at the high rates of interest then prevailing. The treasury balances in India were then so low that no transfer from them to currency reserve was possible. It was therefore indicated** in reply that instead of releasing currency gold in London the Government of India might have to ask for help in the opposite direction. The possibility was not viewed†† with favour by the Secretary of State, who urged the grave inadvisability of earmarking more gold in London, with the Bank of England rate at 6 per cent. and threatening 7 per cent. Events soon forced the matter to a definite conclusion. In December 1906 the increased demands of trade for transfers called for the issue of remittances on an extended scale and the Secretary of State in telegraphing that, in order to avoid inconvenience to trade, he intended to sell telegraphic transfers freely, advised‡‡ the Government of India to provide for them by borrowing the silver in the Gold Standard Reserve. The Government of India demurred to adopting this procedure except in the case of serious emergency in India. In a telegraphic reply§§ they adhered to their view that the proper course was for the Secretary of State to issue transfers through currency. That authority however decided|||| that the state of the London market forbade the further earmarking of gold, and directed that the transfers should be financed by a loan from the silver branch of the Gold Standard Reserve. The issue of telegraphic transfers during the month was so heavy that the Government of India took over the whole of the

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* Despatch from the Secretary of State, dated the 25th May 1906.
† Government of India telegram, dated the 20th June 1906.
‡ Secretary of State's telegram, dated the 28th June 1906.
§ Secretary of State's despatch No. 85 (Finance), dated the 20th July 1906.
|| Despatch to the Secretary of State, No. 66, dated the 21st February 1907.
¶ Secretary of State's telegram, dated the 17th October 1906.
** Telegram to the Secretary of State, dated the 20th October 1906.
†† Secretary of State's telegram of 30th October 1906.
‡‡ Secretary of State's telegram, dated the 5th December 1906.
§§ Telegram to the Secretary of State dated the 6th December 1906.
|||| Secretary of State's telegrams, dated the 7th and 11th December 1906.

silver in the Gold Standard Reserve. The attitude of the Home Government on this question really presents two phases. On the one hand, the Secretary of State evinced a desire to maintain a considerable balance of gold in the London chest of the Paper Currency Reserve in order to assist in maintaining public confidence in the gold standard. On the other hand, he considered it undesirable to embarrass the London market at a time of stringency by making remittances through currency and thus withdrawing gold from circulation. As is not unnatural, the Indian Government viewed the question from a somewhat different standpoint. The theoretical objections to forcing the gold branch of the Paper Currency Reserve into prominence as a defence of the gold standard have already been indicated. Even if these objections be discarded, the fact will nevertheless remain that the adjustment of remittances otherwise than through currency may, as on this occasion, prove embarrassing at a time when a low state of treasury balances is combined with the existence of a stock of rupees in the Currency Reserve more than sufficient to meet all requirements. This side of currency policy presents issues which are still for decision. A description is given below of a somewhat similar position which arose in 1909, when loans on a large scale were again taken from the Gold Standard Reserve. This accommodation was given, however, not from the six crores of the ordinary silver branch, but from an accumulation of rupees which had replaced the sterling securities sold to meet the crisis in exchange. In agreeing to the loan, the Government of India did not sacrifice the principle for which they had contended in 1906.

Expansion of the theory of the use of the Gold Standard Reserve; decision to apply a portion of the profits of coinage for capital expenditure on Railways.

11. Before proceeding to summarize the events of the year 1907-8, the opportunity may be taken of dealing with another question of much importance in the history of the Gold Standard Reserve, the appropriation, namely, of a portion of the profits of coinage for the purpose of expenditure on railway development in India. The summary of Lord Curzon's administration will show that no attempt had been made during the earlier discussions on the regulation of the gold standard to lay down the exact sum which it might be necessary to accumulate in the Gold Standard Reserve. But the question had been publicly referred to more than once by Government; it had always aroused great interest in the public press, and the progress of the Reserve was watched very narrowly by commercial bodies. The published declarations of Government on the point begin with Lord Curzon's suggestion in the budget debate of March 1904 that a reserve of £10 millions might suffice. In January 1905 Sir E. Law, addressing the conference of the Chambers of Commerce, suggested the desirability of aiming at a reserve sufficient to enable the Secretary of State to curtail his drawings by one-third during a period of three successive years, and on that basis named £20 millions as a suitable amount. Sir E. Baker speaking at the budget debate of March 1905 amended this estimate by substituting the proportion of one-half for that of one-third. In the following year, speaking on the same occasion, the Finance Member indicated that the time for a decision was approaching. As then advised, he thought that the figure of £20 millions was the minimum amount to be attained before there could be any thought of utilising the profits of coinage for other purposes. Twenty millions, again, was the sum which the Government of India had thought it might be necessary to borrow in connection with the proposals for accelerating the attainment of an effective gold standard.* During the summer of 1907 the question of

* Government of India's despatch No. 70, dated the 3rd March 1898.

the maximum to be assigned to the sterling investments of the Gold Standard Reserve came under active consideration. The problem had ceased to be one of purely academic interest. The declared policy in the formation of a Gold Standard Reserve was not only to avert a threatened fall in exchange. but to assist in the automatic growth of a gold currency by meeting the demand for gold for internal use. The former object was still the chief consideration on which calculations of the adequacy of a gold standard had to be based. But the latter consideration was not one which could be omitted from the calculation. The Currency Committee of 1898 had contemplated* the establishment of a gold currency as "the normal accompaniment of a gold standard." The Indian Government had incurred no legal obligation to issue gold on demand to tenderers of rupees or currency notes, but it had continued to issue gold freely for internal use, and the sovereign had consistently gained in popularity as a medium of exchange. The estimated volume of gold in circulation on 1st April 1902 was only £4·3 millions. In three years this had risen to £9·5 millions; on 1st April 1906 it was £12·2 millions, and on the 1st April 1907 it was £16·1 millions. It would therefore be highly unfortunate if this progress were at any time to be checked by the inability of Government to continue to meet the normal demand owing to its liquid gold being laid under contribution to assist in averting a threatened fall in exchange.

12. It became therefore necessary to take stock of the resources available for securing the objects alluded to in the preceding paragraph. The conclusions at which Government was inclined to arrive were as follows:— *Firstly,* that the minimum provision which it could with propriety make to meet the demand for gold for internal circulation was to treat all gold outside the Gold Standard Reserve as hypothecated for that purpose. *Secondly,* that the fact that it was possible in the last resource to have recourse to sterling borrowing for the purpose of maintaining exchange would not justify a policy of reliance on deferred borrowing rather than present saving. The continued investment of the profits on coinage would accumulate a reserve of securities, the value of which is, in a large degree, independent of Indian conditions, and the market for which is relatively inexhaustible. The conclusion was that the sterling investments of the Gold Standard Reserve are the only resource which can be taken into practical account in estimating our capacity to support exchange in a serious crisis. But at the time only the slenderest data existed for a scientific calculation of the extent and duration of the strain which might be placed on those investments. It was necessary therefore to arrive at a conclusion on purely general arguments. In the first place, a wide margin must always be allowed for the possible occurrence of panic as the reserve becomes depleted. Again, the public generally cannot in any way judge the suitability of a theoretically determined limit. They will accept the position as secure if the gold reserve is imposing in its magnitude; if not, doubts will always remain as to the permanence of the monetary system and the flow of capital into India will be retarded. Finally the Government of India had always accepted the fact that it occupied a fiduciary position in regard to the profits on coinage. It had received those profits from the public on a definite understanding and for a definite purpose. If the conditions which placed them in its hands were reversed, it was committed to produce and return them either directly or indirectly. The *The same.*

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* Report of the Indian Currency Committee, 1898, paragraphs 51 and 54.

public announcements already cited had more or less committed Government to the accumulation of a sterling investment up to an amount of £20 millions; and at the same time this sum seemed to be the lowest which any considerable section of commercial authorities in India would accept as adequate. There were no circumstances pointing equally definitely towards a maximum beyond which it would be obviously extravagant to persist. Here, again, it was necessary to rely on purely general considerations. In the first place, it was not possible to throw on the market at once more than a certain amount of investments of the classes held in the Gold Standard Reserve. Further, an emergency which called for the active use of the investments to support exchange could not be indefinitely prolonged, for if it were unduly extended it would give rise to conditions requiring an independent and more drastic remedy. It is reasonable to presume that in circumstances falling short of such a crisis the Secretary of State would not have to reduce his drawings by more than one-half over a period extending beyond three years. This would imply that on present figures a sum of £27 millions would be the maximum reserve which it would be reasonable to provide. On a general review of the whole position therefore the Government of India were prepared to recommend the following concrete propositions* :—(*a*) that the investments of the Gold Standard Reserve should continue until they reached a total of £20 millions, (*b*) that when this figure should be reached the investment of profits on new coinage should cease, but the investment of the interest on the securities previously purchased should continue until the total investment reached £27 millions, (*c*) that on this total being attained, the question of further accumulations should be specially considered, and (*d*) that the funds made available by stopping the investment of the profits as above should be used in restriction of borrowings for railway and irrigation expenditure.

The same: decision of Secretary of State to set apart a portion of profits of coinage for expenditure on the railway capital account.

13. While the question was still under discussion and shortly before the issue of the despatch in which the Government of India formulated their recommendations, the Secretary of State announced in Parliament his intention of setting apart from the Gold Standard Reserve a sum of £1 million for expenditure on increasing the rolling stock on Indian railways. In the telegram† confirming this decision it was pointed out that this action was rendered necessary by the practical impossibility of raising a loan in London at the time. The matter came under further discussion on the receipt of the despatch from the Government of India to which allusion has been made above. The departmental Committee on Indian railway finance presided over by Sir J. L. Mackay strongly supported the appropriation of part of the Gold Standard Reserve for expenditure of this nature.‡ The Secretary of State considered that the accumulation of investments in the Gold Standard Reserve was sufficient for the present, and regarded§ as illusory any danger of the fall of exchange in the near future. He decided that until the reserve reached £20 millions one half of the profits of coinage with the interest on securities should be added to the reserve, and the other half of the profit should be used to supplement the funds available for capital expenditure on Indian railways. When the total of £20 millions had been reached, the question of further investments would come under reconsideration.

* Despatch to the Secretary of State, No. 296, dated the 8th August 1907.
† Telegram from the Secretary of State, dated the 2nd February 1907.
‡ Despatch from the Secretary of State, No. 13 (Financial), dated the 20th September 1907.
§ Despatch from the Secretary of State, No. 13 (Financial), dated the 20th September 1907, and telegram dated the 2nd July 1907.

14. The interrupted summary of the events of the year 1907-8 may now be resumed. The drawings of the Secretary of State maintained their exceptionally high level during the first four months of the year, without however affecting exchange, which remained steady at a point or two over 1*s.* 4*d.** The history of the following months deserves narration in some detail, since it illustrates the new dangers incidental to the position now occupied by India as one of the gold-holding countries of the world. Following on heavy drawings in June and July the demand for money in August showed decided signs of slackening. The prospects of the jute crop were understood to be poor, and there was no outflow of money into the jute districts as in the previous year. The uncertainty as to the future reacted on the Secretary of State's drawings and in the first week of the month he sold only 40 lakhs of bills; there were practically no telegraphic transfers sold during the month, and exchange fell to a steady 1*s.* 4*d.* In September, it became apparent that the autumn rains were in marked defect over a large part of India, and particularly in the wheat-growing provinces. Exchange weakened, and sales of Council bills amounted to only 131 lakhs during the month, as compared with 340 and 397 lakhs in the corresponding month of the two previous years. In October there was a slight improvement in jute prospects, but exchange failed to rally, and by the end of the month it was clear that the export trade in wheat would be insignificant, and that business generally would suffer the usual consequences of a severe scarcity in Northern India.

Events leading up to fall of exchange in 1907-8.

15. Before the beginning of November therefore the conditions for a weak exchange were fully established. To these conditions there was suddenly superadded an external complication as serious as it was unforeseen. On the 20th of October the Mercantile National Bank of the United States of America was announced to be in difficulties; and by the beginning of November a great financial crisis had developed in the United States. America fell upon the world's store of gold with all the insistence of panic; credit was temporarily paralyzed, the gold currency rose for a time to a premium of 4 per cent. and before the panic abated over 23 millions sterling in gold had been poured into that country. The result was to denude the available gold reserves of Europe in the most serious manner, and the Bank of England in self-defence raised its rate on the 4th November to 6 per cent. which was again raised to 7 per cent. three days later. The effect on India was instantaneous, for the tightness of money combined with the slackening of export trade destroyed for the time the market for the Secretary of State's bills. On the 6th November tenders dropped to 1—3$\frac{29}{32}$ and he was able to sell only 30 lakhs. Thereafter for five weeks he practically withdrew from the market altogether; but the scarcity of gold and the absence of exports continued, and exchange moved steadily downwards. On the 13th November it fell to 1—3$\frac{13}{16}$ and on the 25th to 1—3$\frac{11}{16}$. This was the lowest point reached during the crisis.

The same: effect of monetary crisis in America.

16. The significance of these quotations lies in the fact that they were below the point (1—3$\frac{27}{32}$ for telegraphic transfers) at which it became profitable to export sovereigns from India, provided always that the latter could be obtained at par. This fact, coupled with the continued demand for gold for America, directed attention to India as a possible source of

The same: demand for sovereigns for export from India.

* Financial Statement, 1908-9, page 22.

supply, and in the first half of November enquiries were made from more than one quarter, to ascertain whether Government would be willing to issue gold freely, *i.e.*, without limit of amount, in exchange for rupees at Rs. 15 to the pound. It was of course understood that the sovereigns were wanted for export. The matter was carefully considered by the Government of India. The theoretical arguments in favour of a liberal issue of gold as an antidote to a fall in exchange were freely admitted. But at the time it was felt strongly that the depression was not due exclusively to the contraction of exports. The demand for gold was made in part in the interest of India's own trade; but it was also due in great measure to the American crisis and the latter factor was clearly one that had to be seriously reckoned with. The interests of Government could most effectively be protected by the stoppage of Council drawings, and this course the Secretary of State had already adopted. Moreover, the whole supply of gold in India was only about $3\frac{3}{4}$ millions, of which only some 2 millions was at Bombay and Calcutta, and this was already being drawn off at the rate of about £400,000 a month for internal consumption. Had the demand for issues without limit been complied with, the whole available supply might have been exhausted in a few weeks, and issues must then have been discontinued with the possible result of precipitating a panic. For these reasons, the Government decided to stand by its legal rights. The currency offices were accordingly instructed not to issue gold in larger quantities than £10,000 to any individual on any one day. The decision was much criticized at the time, and in the light of subsequent experience it may be doubted whether the free offer of gold would not have had a salutary effect in supporting exchange. The attempt to hold on to our supplies proved ineffectual, and before many months had elapsed they were reduced to a minimum in the natural course of business, while the weakness of trade prevented an inflow from Europe.

The same: commencement of sale of sterling demand drafts on England.

17. Meanwhile, as stated above, the Secretary of State had virtually suspended the sale of Council bills. To enable him to persevere in this course until favourable tenders should be received, he on the 25th November released one million sterling of the gold in the currency chest in London and further sums of one million and half a million were released on the 6th and 18th December. A few days later, it was arranged that if necessary telegraphic transfers on London should be offered for sale in India at the fixed rate of $15\frac{27}{32}$*d.* the rupee; in modification of this it was arranged about the end of February that bills on London ("Sterling bills") should be offered for sale, at a fixed rate of $15\frac{29}{32}$*d.* the rupee, instead of telegraphic transfers. It was intended that the total amount sold in any one week should not exceed £500,000. The rupees received in return for the drafts were to be placed in the silver branch of the Gold Standard Reserve, to be again converted into gold securities as soon as the tide of exchange had turned and stability was re-asserted. The effect of the action taken was marked. When the Secretary of State on the 25th November set free the first million of his currency gold, exchange was at 1—$3\frac{11}{16}$, the lowest point reached during the crisis. Within five days it had risen to 1—$3\frac{27}{32}$. Fresh releases of gold maintained it at a fairly steady rate of 1—$3\frac{29}{32}$ during December, and in January 1908 the situation was further assisted by a sterling loan of 5 millions which the Secretary of State was able to raise on favourable terms. The sale of Council bills was resumed and gradually advanced to a weekly allotment of 80 lakhs. But the

crisis had not entirely passed. Sales fell off again in February, and in March the demand rate in India sank to 1—3$\frac{7}{8}$. The expedient of selling sterling demand drafts was then brought into play, and on the 26th half a million was offered for sale. For the first week only £70,000 were taken up but as time went on, and exchange delayed its return to gold point, the demand for transfers steadily increased. Bar silver was being imported into Bombay, partly for speculative, partly for genuine trade purposes, while the import trade to Burma was active and required financing. In May the exchange stood at 1—3$\frac{7}{8}$ and the market was taking up the full amount of transfers offered week by week. In order to prevent a fresh collapse of exchange it was decided with the Secretary of State's sanction to give the trade all it would take for the purpose of remittances and in the first two weeks of June £1,000,000 were offered. This action had the desired effect. Exchange on the 10th June strengthened to 1—3$\frac{29}{32}$ and it was decided to continue the offer of half a million a week until exchange reached and maintained a stable level of 1—3$\frac{15}{16}$.

18. These precautions were rendered very necessary by the agricultural *The end of the crisis.* results of the year 1908-9. Exports of oil-seeds and of food-grains were far below the average, and the outturn of wheat, in particular, barely sufficed to supply the needs of India. To these changed conditions the import trade had not yet had time to adjust itself, and the inrush of piece-goods, metals, sugar and treasure continued, together with heavy arrivals of railway materials. The situation was further complicated by a fall in the price of silver, which induced heavy imports of that metal into Bombay. In such circumstances even the liberal offer of sterling bills failed to maintain exchange. On the 2nd July the rupee was again down to 1—3$\frac{7}{8}$, and continued at that figure for some weeks. The end of the crisis was, however, in sight. A tardy curtailment of imports had at last set in, a favourable monsoon encouraged hopes of a good spring harvest, and outward trade shewed signs of revival. The demand for sterling bills ceased in the middle of August, although the offer was kept open, as a precautionary measure, for another month. On the 25th August exchange began to rise, and during the greater part of September, when the Secretary of State was able to resume substantial drawings on India, it stood firm at 1—3$\frac{31}{32}$. A temporary check was experienced in October, when the heavy silver imports began to make themselves felt. Exchange fell again to gold point, and for a few weeks Council drawings almost ceased. Recovery was, however, not long delayed. The rupee rose again to 1—3$\frac{15}{16}$, and in the last week of 1908 Council bills reached the high figure of 150 lakhs, the heaviest regular allotment on record.

19. During the five months of the fight against the fall in exchange, *Situation after the struggle.* sterling bills to a total amount of £8,058,000 were sold in India. The par value of these bills was paid into the silver branch of the Gold Standard Reserve in this country, the Secretary of State making corresponding disbursements of gold from the Reserve in London. By this means it was found possible to withdraw from circulation no less than twelve crores of rupees. This result was not, however, attained without considerable cost. The struggle imposed a severe strain upon the gold resources of Government. In London, the sovereigns in the currency chest were reduced from £7 millions to £1$\frac{1}{2}$ millions; Reserve securities of the face value of £8,100,497 were put on the market; and all interest on investments was

paid away as it accrued. In India, the entire stock of gold was exhausted. In October 1907, when the troubles began, the Currency chests, treasuries and mints held $4\frac{1}{4}$ millions of sovereigns. On March 31st, 1909, the stock had fallen below £100,000 and all further issues had been stopped. All that the Government had left in reserve when exchange had reached a normal state were securities of the face value of less than £$6\frac{1}{2}$ millions, and a currency balance of £$1\frac{3}{4}$ millions in gold and £$1\frac{1}{3}$ in securities, both held in London.

Lessons of the struggle the adequacy of the reserve.

20. With the return of ordinary conditions, Government proceeded to review the whole situation. Previous discussions of the proper strength of the reserve had necessarily been based upon *a priori* calculations only, but now the experience of an actual crisis was available. In the light of what had taken place, the outlook was not entirely satisfactory. As the result of a period of trade depression, which had extended over little more than a year and had been partially occasioned by a famine more restricted in its scope than is usually the case with similar calamities, Government's stock of gold had been reduced by no less than 15 millions sterling. It is true that the position had been complicated by the occurrence of the American crisis; but financial panics in gold-using countries are not unlikely accompaniments of prolonged trade depression, and must be taken into account in providing against possible dangers. To afford a reasonable margin of safety against eventualities, prudence appeared to demand a minimum stock of £25 millions of gold and gold securities in the Gold Standard Reserve, apart from any sovereigns which might be held in the Currency Reserve and in Treasury balances. Government accordingly concluded that it was eminently desirable to bring the reserve up to this amount at the earliest possible date. There are two ordinary sources from which the reserve is augmented. The interest on its invested funds yields an addition of rather less than half a million sterling yearly; but the more prolific source of supply is the credit from the profits of coinage, when these accrue. To ensure the speedy attainment of the desired minimum, it was obvious that full use should be made of both these sources for some years to come. At this point, however, Government were confronted by the decision of the Secretary of State to apply to the Railway programme one half of the profits of coinage. This decision had from the outset been stoutly opposed by the Government of India, who had in the matter the whole-hearted support of the entire mercantile community of the country. It was therefore determined, in the interests of stability of exchange, to press strongly for its reconsideration.

The same: the shape in which the reserve should be held.

21. An allied question was that of the shape in which the reserve should be held. The existing system, by which practically the whole amount is invested in sterling securities of the British Government, appeared to the Government of India to possess considerable disadvantages. The employment of the reserve in a time of difficulty would involve the sale of large blocks of these securities. It is easy to imagine circumstances in which such sale would be directly contrary to Imperial interests: it might even be that it would be entirely impossible to find a purchaser. Moreover, granted that realisation is readily made, its effect will be purely local and will benefit Indian exchange alone. In a time of serious crisis, the urgent need is for an increase of the stock of gold available to the markets of the world, and a system which would

allow of the release of a store of sovereigns in Lombard Street, as an accompaniment of the reduction of the rupee circulation in India, would be of inestimable value in a time of financial stringency. With the existing arrangement, this advantage is entirely lost. The sale of securities, and the disbursement of their proceeds in London to merchants who pay rupees to Government in India, does not in any way augment the available stock of gold: it merely transfers a portion of it from one quarter to another. It operates, it is true, to withdraw a quantity of rupees from the Indian market, and to that extent exercises a beneficial influence upon exchange: but it entirely fails of that far-reaching effect which would result from the release of a substantial store of sovereigns. In view of these facts, and of the strong position in the markets of the world occupied by a country which possesses a readily available reserve of gold, Government considered that the loss of interest on a portion of the Gold Standard Reserve would be more than compensated by the advantages of holding it in liquid shape. They accordingly decided to press upon the Secretary of State the desirability of so holding a substantial part of the reserve, under as nearly as possible the same conditions as govern the management of the Currency gold in London.

The same: views of the Secretary of State on the two points discussed above

22. The views of the Government of India on these two points were communicated to the Secretary of State in April 1909.* They did not however meet with his entire approval. With regard to the adequacy of the reserve,† the Secretary of State considered that the gravity of the situation had been exaggerated. He argued that the circumstances of the recent crisis had been exceptional; that a combination of famine at home with panic abroad was most unlikely to recur; and that the success with which the situation had been met from existing resources went far to prove the adequacy of the latter. He further laid stress on the fact that the Gold Standard Reserve is only the second line of defence in an exchange struggle, and claimed that the brunt of the attack is met by the gold held in Treasury balances and the Currency Reserve. In deference, however, to the wishes of the Government of India, he consented to suspend the application of coinage profits to railway construction until such time as the stock of gold in the Gold Standard Reserve and the Currency Reserve combined amounts to 25 millions sterling, and to leave open for the present the question of the action to be taken after that limit is reached. It may be mentioned that the concession actually granted amounts to very little. The gold in the Gold Standard Reserve now stands at over £16 millions, and it is unlikely that there will ever be much less than £9 millions of gold in currency at any time when coinage is necessary.

On the subject of the form of the reserve, the India Office reply was little more encouraging.† The Secretary of State refused to admit that there could be any difficulty in realising securities. He pointed out that a considerable portion of the reserve is always held in the shape of securities with a near date of redemption, and claimed that, as he had in the past successfully managed the business of realisation, there was no need to doubt his ability to do so in future. As to the beneficial effect upon the market of release of liquid gold in times of crisis, he argued that this effect would be entirely counterbalanced by the discomfort caused to the market while the accumulation of the reserve was proceeding. Here too, however, he consented

* Despatch to Secretary of State No. 87, dated 1st April 1909.
† Secretary of State's Despatch No 82 (Financial) dated 2nd July 1909.

to make a concession to the Government of India and to hold a sum of £1 million of the reserve uninvested in England This amount he would either lend from time to time for short periods to approved institutions or firms, or deposit at interest with Banks of high standing

The same subsidiary questions of the proportion of silver to be held in the two reserves, and the location of the gold held in the Currency Reserve

23. The Government of India were obliged to accept the orders of the Secretary of State as settling the two main points In the despatch* in which he communicated his decision, however, he expressed views with regard to the proportion of rupees that should be held in the Gold Standard Reserve and the Paper Currency Reserve respectively, which seemed to call urgently for reply. In arguing the possibility of supplementing the stock of gold in the former reserve by a liberal holding of sovereigns in Currency, he remarked that a rupee balance of three crores in the Gold Standard Reserve and fifteen crores in the Currency Reserve would amply meet the silver requirements of the country The Government of India protested† strongly against this view They emphasised the object with which the silver branch was originally established; the provision, namely, of a reserve against a drain upon their silver resources at a time of trade activity They contended that it was equally as essential to prepare against a run upon their silver as to guard against the depletion of their stock of gold; and they expressed a strong opinion that the minimum silver holding consistent with prudence was one of six crores in the Gold Standard Reserve coupled with a rupee balance in Currency amounting to at least one half of the liquid Currency holding At the same time, they took the opportunity of urging that the greater part of the Currency gold should always be located in India; pointing out that this procedure would at once facilitate the establishment of a sovereign circulation in this country and would also, when exchange difficulties arose, afford the means of restoring public confidence by the free issue of gold to the trade The Secretary of State's reply‡ to these proposals is still under consideration

Exchange in 1909-10 and the early part of 1910-11

24. While these discussions were proceeding, the gold position of Government had been steadily improving The revival of exchange which had commenced in October 1908 continued unchecked for nearly a year In December and January the Secretary of State sold Council bills to the amounts of 468 and 517 lakhs and, though the demand fell off in the two following months, April shewed a sale of 414 lakhs. The market was not yet, however, quite prepared to deal with these great accumulations of capital, and in July some uneasiness began to be felt. This culminated, in the beginning of August, in a pronounced weakness of the exchange market, and on the 31st of the month the rate dropped to gold point. In accordance with the now recognised policy of Government, sterling bills were at once offered to the public The difficulty was, however, temporary only. During the two weeks for which the offer remained open, bills to the amount of £156,000 only were required; and the real extent of the demand appeared clearly from the fact that the Secretary of State continued to sell Council bills without a check at 1—3$\frac{29}{32}$. In view of the small amount involved, the sterling bills issued were met from the Treasury balances in London,§ without trenching upon the Gold Standard Reserve. The demand for Councils revived on the 10th September, and since that date the course of exchange has been uniformly favourable. Sales were particularly heavy in the closing months of 1909-10,

* Secretary of State's Despatch No. 82 (Financial), dated 2nd July 1909
† Despatch to Secretary of State, No. 236 dated 30th September 1909
‡ Secretary of State's despatch No 25 (Financial) dated 18th February 1910
§ Telegram from the Secretary of State, dated 15th September 1909.

reaching in March the record figure of 866 lakhs. In 1910-11, up to the end of July, the Secretary of State had drawn for Treasury purposes more than a million pounds in excess of the proportionate estimate, in addition to drawings of £1¾ millions on account of the Paper Currency Reserve.

Replacement by gold of the rupees accumulated in the Gold Standard Reserve. Return of sovereigns to India.

25. Advantage was taken of these heavy drawings to replace by gold the accumulation of rupees in the Gold Standard Reserve, which had arisen from the sale of securities to meet the crisis of 1907-08. On the 31st March 1909, the reserve held silver coin to the amount of over £6 millions, in addition to the ordinary silver branch of £4 millions. Twelve months later, not only had the whole of the surplus been drawn off and replaced by sterling securities, but the silver branch itself had been reduced to 380 lakhs of rupees. The significance of this latter reduction is discussed in a later paragraph. The heavy drawings of Council bills did not exhaust the trade demand for money, and the last four months of 1909-10 saw large importations of sovereigns to finance the Bombay cotton crop. The stock of gold held by the Government of India, which on the 31st October 1909 amounted to less than £35,000, rose by the end of March to nearly 6½ millions sterling. The process of accumulation then ceased. The Secretary of State began to divert gold from India by purchasing shipments in transit from Australia, and during the two months for which his purchases continued drew off nearly £2 millions which would otherwise have entered this country. In the meantime there was a steady demand for sovereigns for circulation in India, while a small quantity was exported to meet a temporary necessity in Singapore. As a result the gold holding of Government gradually diminished, and was reduced by the end of October to the sum of two millions sterling.

Later history of the silver branch of the Gold Standard Reserve.

26. It has already been mentioned that the silver branch of the Gold Standard Reserve had attained to very considerable dimensions through the sale of securities to meet the crisis of 1907-08. A novel use was found for the accumulation of rupees during the latter part of 1908-09. The shortage of revenue collections had told heavily on the working balances of the Indian treasuries, and the Secretary of State's drawings from the month of November onwards were more than their depleted resources could meet. With the prospect of a considerable influx of revenue in February and March, it was obvious that a short-term loan would suffice to meet the situation. The superfluous rupees in the silver branch were clearly of little value, at the time, for the support of exchange; and it was therefore decided to take temporary loans from them in aid of treasury balances. As has been pointed out in paragraph 10 above, this step did not involve a departure from the principle for which the Government of India had contended in 1906. The loan did not entail any encroachment upon the silver nucleus of six crores of rupees; it merely removed a portion of the excess accumulation of silver. There were other alternatives open. The Secretary of State might curtail his drawings, and thus run the risk of administering a check to the growing revival of trade, or the Government of India might resume coining operations. The former alternative the Secretary of State was most unlikely to consider favourably; to resort to coinage while a large stock of rupees existed in the country, which would certainly, if exchange continued good, become available for supply to the market within a very few months, was clearly undesirable. Accordingly, a loan of £200,000 was taken from the silver branch on November 13th, 1908, and was supplemented in that and the three succeeding months by further

similar appropriations. The whole amount of the loan, which totalled £3 millions, together with interest at the rate of 3½ *per cent*, was repaid before the close of the financial year. The process was repeated in December 1909, when a loan of £2 millions was taken. This sum also was replaced, with interest, before the 31st March 1910.

The policy described above was of a temporary nature, being possible only so long as the silver branch held rupees in excess of the ordinary nucleus. By the beginning of 1910-11, the whole of the excess had been replaced by sterling securities, and a surplus from which to borrow no longer existed. In the process of substituting gold for silver, however, the Secretary of State made a new departure of considerable importance. His final transfer* of gold from Treasury to the reserve was in excess of the amount required to reduce the silver branch to the ordinary figure of six crores, and actually brought the nucleus down to the sum of 380 lakhs of rupees. In announcing the transfer he gave no explanation of the policy underlying it, and has since evinced no desire to restore the deficiency of 220 lakhs. It appears probable, therefore, that the step was taken in pursuance of his opinion, described in paragraph 23 above, that a silver branch of three crores would be sufficient for all practical purposes. The line to be adopted by the Government of India in this connection is still under consideration, and they must not be understood to have accepted in their entirety the views of the India Office.

General review of the resources available for the support of exchange at the end of the period

27. A brief summary of the resources available to Government for the support of exchange at the end of the period under review will be of interest, in view of the marked developments which occurred during the five years. When Lord Minto assumed office, Government possessed the funds of the Gold Standard Reserve, invested in sterling securities in London, together with any gold which might be held in the Currency Reserve in India. The latter was not, however, regarded as a weapon to be used in a struggle with exchange; its function was to be merely the supply of sovereigns required for internal consumption. The attitude of Government in a time of crisis was expected to be mainly passive. The Secretary of State would suspend his drawings, and would finance his own operations by the sale of securities of the Gold Standard Reserve; a corresponding transfer of rupees being made from Treasury to the reserve in India. Exchange would, in fact, be left to right itself, with such assistance as might be afforded by the cessation of the sale of Council bills. All precautions were at that time directed against a *fall* in exchange. No measures were considered necessary to meet a possible run upon silver. The situation to-day is very different. The experience of a prolonged trade boom shewed that the position of Government is assailable from the silver, as well as from the gold, side. This led to the establishment of the silver branch of the Gold Standard Reserve; designed originally to provide a reserve of rupees at times of heavy pressure, but to be used only when coinage was imminent. If the views held by the India Office with regard to this reserve prevail, its use will in future be far more elastic. It will be brought in to the aid of Treasury balances whenever the low condition of the latter would otherwise necessitate either coinage or a curtailment of the Secretary of State's drawings.

On the gold side of the question, even greater developments have taken place. The first step was the establishment of the London branch of the

* Secretary of State's telegrams to Comptroller General, dated 23rd and 31st March 1910

Currency Reserve. This was at the outset intended mainly to facilitate the purchase of silver bullion at times of coinage, and incidentally to afford a means of financing the Secretary of State's operations in London whenever the state of exchange made the sale of Council bills undesirable. The Currency Reserve has by degrees been forced into a more prominent position, and it is now regarded, both by the Secretary of State and the Indian Government, as the first line of defence against an attack upon exchange. If an attack of this kind occurs in future, Government will abandon their old passive attitude and will adopt active measures of defence. In the budget debate of 1910-11 the Finance Member made the important announcement that Government were resolved to make in future a free use of all their gold resources to combat any weakness of exchange. When difficulties again arise, the measures adopted to meet them may be expected to be of the following nature. Gold will be issued freely in India, to meet the demands of the trade. At the same time, the Secretary of State will suspend his drawings, and will find funds for his ordinary disbursements by drawing first on the Currency Reserve, and, when this is exhausted, on the securities of the Gold Standard Reserve, which he will realise for the purpose: corresponding transfers of rupees being made in India. When the stock of gold in this country is depleted, sterling bills will be issued freely against Currency Reserve and Gold Standard Reserve gold in London, for so long as the gold resources of Government hold out. It is to be hoped that before another crisis occurs these resources will have been so much augmented as to put the question of their adequacy beyond all doubt.

Expansion of the circulation of gold.

28. The progress attained in the establishment of an effective gold currency up to the year 1905 was described on page 25 of the summary of Lord Curzon's administration. It was there stated that the public had taken over £9 millions of gold from the Government and probably something from other channels. The estimated volume of gold that had passed into circulation up to April 1st, 1907, was £16·1 millions; on April 1st, 1908, it had risen to £22·3 millions, on April 1st, 1909, to £24·7 millions and on April 1st, 1910, to £25·5 millions. An investigation, conducted during 1905-6 with the view of ascertaining how far this gold was in active circulation, yielded a good deal of interesting information and revealed the existence of very divergent views on the question. The result however was inconclusive. No quantitative evidence of any value was obtained, and the only safe inference that could be drawn was that the circulation of gold is slowly but perceptibly increasing. Part of the figures quoted in the course of the enquiry may be cited as an illustration of the extent of current transactions in sovereigns. During the last quarter of the calendar year 1906 four large banks—two Presidency banks, one of the chief Exchange banks and an important Mofussil bank—paid 230,750 sovereigns over the counter, at their head offices and branches together. In the same quarter, the Telegraph Offices throughout India received 7,037 sovereigns and 303 half-sovereigns from the general public; the head and larger Sub-Post Offices throughout India received 284,233 sovereigns and paid out 255,452; and the total receipts and issues on the railways for the same period amounted to 203,181 sovereigns and 2,897 half-sovereigns. The figures of

receipts and issues from the Indian Treasuries contribute important evidence to the same effect:—

	Receipt.	Issue.	Net issues.
1901-1902	553,103	786,055	232,952
1902-1903	602,400	976,200	373,800
1903-1904	747,400	1,407,900	660,500
1904-1905	1,075,500	2,095,500	1,020,000
1905-1906	1,599,400	3,028,900	1,429,500
1906-1907	4,170,700	2,082,200	2,088,500
1907-1908	3,344,300	6,149,400	2,805,100
1908-1909	2,043,300	3,403,200	1,359,900
1909-1910	306,000	511,200	205,200

A further result of the inquiry may be mentioned. It is clear that the circulation of the sovereign has not, as at one time seemed probable, been confined to the large commercial centres. There has been a steady demand in outlying districts and small head-quarter towns. The fact is encouraging, but it is clear that in proportion as the sovereign is widely diffused in non-commercial centres the difficulty of collecting it for re-export when exchange is depressed will be increased.

Additions to silver currency during the period.

29. In the cold weather of 1905-6 the difficulty caused by the pressure of the trade demand for rupees (*vide* page 19 of summary of Lord Curzon's administration) recurred in an acute form. The net addition made to the rupee coinage during each year since 1899-1900, when minting operations were resumed, had been as follows:—

	Lakhs.
1899-1900	52
1900-1901	13,27
1901-1902	3,11
1902-1903	14
1903-1904	10,65
1904-1905	7,31

When making the forecast for the busy season of 1905-6, the Government found themselves on the 1st October with a balance of 13 crores of coined rupees in the Currency Reserve, in addition to the ingot reserve of 300 lakhs of tolas, and bullion already ordered or purchased sufficient to produce nearly 280 lakhs more. Assuming a demand equal to that of the corresponding months of 1904-5, they might have expected, without further purchases of silver and without drawing on the ingot reserve, to be able to maintain a minimum rupee balance of more than 11 crores up to the end of January. But to be on the safe side they indented for £750,000 worth of additional silver by that date. In the actual event the purchases of bullion during the period mentioned had to be increased to £2¾ millions' worth, and the whole of the ingot reserve was also converted into coin. The fresh coinage amounted to 777 lakhs, or 5 crores more than had originally appeared to be required for the maintenance of a balance of 11 crores. Notwithstanding this enormous outturn, the rupee balance fell by the end of January to 7½ crores. On the 6th January a further request for the purchase of £2½ millions' worth of silver was sent to the Secretary of State, and the Government had to supplement their resources by obtaining a temporary loan of 70 lakhs from the

Maharaja Scindia, and by purchasing Rs. 30 lakhs' worth ot silver from the Russo-Chinese Bank. During this period the mints were working at the highest possible pressure. The total outturn of rupees amounted to 19,60 lakhs, and the net addition to the rupee coinage was about 16½ crores of rupees. Nevertheless the return of the end of March 1906 showed only 13,58 lakhs of rupees in the Currency Reserve and no ingot reserve at all.

The same; decision to adopt principle of coinage in advance of requirements.

30. The principle of coinage in advance of actual requirements had been formulated in the despatch from Lord Curzon's Government No. 143, dated 27th April 1905. The experience of the year 1905-6 indicated the necessity for giving more complete effect to the conclusions there stated, and the Secretary of State was asked* to supply a million worth of silver bullion a month for coinage purposes, with the object of enabling the Government of India to work up to a balance of not less than 18 crores in the Currency Reserve by the 1st October when the busy season usually opens. This seemed to be by no means an excessive estimate of the number of coined rupees that ought to be so held. In the first place, the proper function of the bullion reserve is to provide for unforeseen demands. The normal coinage of the year should be evenly distributed, instead of being concentrated into the busy season when the bullion reserve itself may require to be converted into coin. Secondly, the limit of reliance upon a reserve of bullion is reached when the reserve becomes so large that the time taken to coin it exceeds the time required to replace withdrawals by fresh purchases in England. Any further strengthening of stocks can thus be most advantageously effected by working up to a higher balance of coined rupees at the beginning of the busy season. Again, advance coinage has the additional advantage of spreading the demands on the silver market more evenly. As already shown, the ingot reserve of silver had been replaced by a special reserve of 600 lakhs of coined rupees, held as part of the Gold Standard Reserve. But this reserve was meant to serve special emergencies, and could not be utilized to meet the growing demand for coinage for ordinary trade purposes.

Silver coinage in 1906-7.

31. Throughout 1906-7 the growing use of Council bills for trade remittances continued to throw a heavy burden on the mints. No less than 25,38 lakhs of rupees were coined, and the absorption reached a total of 16¾ crores. It was however found possible to close the year with a stock of 13·7 crores in the Currency Reserve and 6 crores in the Gold Standard Reserve, while 4½ crores of bullion were held in the mints awaiting coinage into rupees. Investigation showed that the mints after providing for normal requirements in the form of bronze, small silver and nickel, were capable of turning out 9 lakhs of rupees per working day. This total could be considerably raised during short periods by overtime working. The maximum annual outturn of the mints was roughly estimated at 24 crores without overtime, or 33¼ crores with overtime. As a measure of precaution it was decided to extend the buildings of both mints, to introduce electric power at Calcutta and to purchase additional plant. With this addition the capacity of the mints was raised to 36 crores a year working ordinary hours and 47½ crores with overtime.

Silver coinage in 1907-8.

32. During the earlier months of 1907-8 the trade demand for rupees continued active. From September 1907 however it began to slacken and in February and March 1908 large numbers of rupees were returned from

* Telegram to the Secretary of State, dated the 8th March 1906. Despatch to the Secretary of State, No. 14, dated the 20th April 1906.

circulation. Rupee coinage at the mints was practically suspended at the end of March, and the total production of the year amounted only to 17,33 lakhs. The stock held in the Currency Reserve on 31st March was 25 crores, and this had risen by the end of June to 27 crores in the Currency Reserve and $5\frac{3}{4}$ crores in the Gold Standard Reserve, over and above the special reserve of 600 lakhs to which allusion has already been made. The total absorption of the year 1907-8 did not exceed 4 crores.

Silver coinage in 1908 9 and 1909-10

33. There was no new coinage of rupees in 1908-9, 1909-10 or the portion of 1910-11 which has already elapsed. The purchase of silver has for some time been discontinued. In October 1908, however, the heavy accumulation of uncurrent rupees in the treasuries compelled Government to resume reminting operations. The total coinage of the year 1908-9 amounted to 251 lakhs, the bulk of this being the recoinage of uncurrent rupees, and the similar work undertaken in 1909-10 produced a total of 208 lakhs of rupees.

CHAPTER II.

PAPER CURRENCY, BANKING, RAILWAY AND IRRIGATION FINANCE.

1. Anticipations were at one time expressed* that the introduction of gold into general use might react by contracting the circulation of currency notes. These anticipations have not been realized. Even before the introduction of the "universal" five-rupee note the circulation had tended to rapid expansion, the average of 1904-05 being a little over Rs. 39 crores against Rs. 25½ crores in 1898-99. The succeeding years exhibited a still further expansion:

Growth of the circulation of currency notes.

Gross circulation—Lakhs of rupees.

	1904-5.	1905-6.	1906-7.	1907-8.	1908-9.	1909-10.
Average . . .	39,20	41,52	45,14	47,32	44,52	49,66
Maximum . . .	42,52	44,66	47,30	52,74	48,10	54,41
Minimum . . .	36,11	39,63	42,89	41,82	42,07	43,65

The net circulation, excluding the notes held by the reserve treasuries and by the Presidency banks at their head offices, has been as follows:—

Lakhs of rupees.

	1904-5.	1905-6.	1906-7.	1907-8.	1908-9.	1909-10.
Average . . .	30,69	32,83	35,92	36,47	34,84	38,88
Maximum . . .	31,82	35,35	38,89	38,14	36,85	42,66
Minimum . . .	29,63	31,06	33,08	34,91	32,88	36,07

As might have been expected, there has been a rapid increase in the use of the five-rupee note, of which there were 2,269,962 pieces in circulation on 1st April 1910 as compared with 800,221 on the last day of the year immediately preceding the introduction of the "universal" note. There has also been a very remarkable increase in the vogue of ten-rupee notes, which in March 1910 numbered 11,598,068 pieces as against 7,084,004 in March 1905. The decrease in the gross circulation of currency notes in the year 1908-9 was due to the smaller demand for money for trade purposes, but the fact that the use of notes of low denomination actually increased during that year affords satisfactory proof of the growing popularity of paper money as a medium of exchange.

The events of the earlier months of 1910-11 have given additional evidence of this fact. On the 31st July 1910, the gross circulation reached the record figure of 59,16 lakhs, while the net circulation rose on the 30th April 1910 as high as 41,89 lakhs, an amount exceeding by 4½ crores that of the corresponding date in 1909. In view of this expansion, the Government of India have been discussing the desirability of increasing the invested portion of the Paper Currency Reserve. A new form of the "universal" five-rupee note was introduced in 1906.

2. The increasing importance of Cawnpore as a trading centre led the Government of India in 1903 to consider the advisability of transferring the Currency Office at Allahabad to that town. The sanction† of the Secretary of State to the move was received in July 1903, but owing to delay in the construction of buildings the office was not opened until 1st February 1908. Cawnpore was accordingly notified‡ with effect from that date as the

Transfer of the Currency Office at Allahabad to Cawnpore.

* Summary of Lord Curzon's administration, page 27.
† Despatch from the Secretary of State, No. 120, dated the 10th July 1903.
‡ Notification (Finance) No. 359 A. of the 17th January 1908.

place of issue of notes for the circle comprising the United Provinces of Agra and Oudh. A currency agency has since been maintained at Allahabad, under the control of the local Accountant General, in order to continue to some extent the facilities for the exchange of notes formerly enjoyed by this important banking centre.

Proposal to extend the universal 5-rupee note to Burma

3. When the universal 5-rupee note was introduced in 1903, it was decided to exclude Burma from its range. This decision was based on the apprehension that the large seasonal movements in trade between Burma and India would lead to the excessive use of an all-India note for purposes of remittance, and thus cause heavy expense to Government in moving a sufficiency of rupees to ensure encashment. The question was reconsidered in 1907-08. The Government of India came to the conclusion that the danger in extending the "universal" note to Burma was not so serious as was at one time believed and that it might be diminished by reducing the rates in force for (currency) telegraphic transfers between India and Rangoon It was decided* as a preliminary measure to reduce these rates by one-half, namely to $\frac{1}{8}$ per cent. in the case of transfers sold in India on Rangoon, and to $\frac{3}{32}$ per cent. in the case of transfers in the opposite direction, and to obtain the views of the local Government and of the Rangoon Chamber of Commerce on the subject of extending the universal note to Burma.

Both these bodies supported the proposal, which received the sanction of the Secretary of State;† and the necessary amendment of the Paper Currency Act was carried out by Act II of 1909.

Universalization of ten and fifty-rupee notes

4. The extension of the universal 5-rupee note to Burma revived public interest in the question of the universalization of other denominations of notes; the Indian Press took up the matter; and the propriety of extending the present facilities was urged upon Government by some of the leading commercial bodies in India. Everything pointed to an advance along the lines which had already been approved. The Government of India accordingly approached the Secretary of State‡ with a proposal for the universalization of all currency notes from Rs. 100 downward. They laid stress on the fact that no insuperable resource difficulties would be entailed by the measure. The Currency Reserve held a large balance of rupees, and in addition to this it would be possible to distribute among the principal treasuries, and hold as a reserve against a possible run on the universal notes, the minimum of six crores maintained in silver in the Gold Standard Reserve. Nor was it probable that any great addition to the movements of specie would be involved. The abuse of the present concessions in respect of the acceptance of foreign circle notes, as well as the requirements of the sub-circle system, which permitted the encashment of certain notes either at the actual office of issue or at the Presidency town of the circle, already laid Government under considerable liabilities in this respect. It was now proposed to withdraw both these facilities, and at the same time to attract the public to a more general use of supply bills and telegraphic transfers as a means of remittance by lowering both the rates and the minimum amount (Rs. 50,000) of such transfers.

* Government Order Finance Department, No. 2559-A., dated the 2nd May 1908.
† Telegram dated 10th December 1908.
‡ Government of India, Finance Department, No. 50, dated the 25th February 1909.

The scheme thus involved the following proposals :—

(*a*) to make all currency notes, from Rs. 100 downward; encashable at par throughout India; (*b*) to grant bills and telegraphic transfers between different currency centres and other important towns at cheaper rates and for minimum amounts of Rs. 25,000; (*c*) to abolish the privilege of double encashment of sub-circle notes : and (*d*) to abrogate the concessions described in Article 606 of the Civil Account Code, by which foreign circle notes were received in payment of Government dues and, in certain cases, by railways and post offices.

A subsidiary proposal contemplated the abolition of the Rs. 20 note, which is comparatively unpopular, while it possesses the disadvantages of competition with the sovereign and liability to be confused with the Rs. 10 note.

5. The Secretary of State considered* that it was desirable to confine the enfranchisement, for the present, to the Rs. 10 and Rs. 50 notes. The effect of this measure should, he thought, be watched before extending the change to the higher denominations. With this one exception, he approved of the scheme, and steps were taken to introduce it. It was necessary, in the first place, to amend the Paper Currency Act of 1905, and this was effected by means of a consolidating bill passed on the 18th February 1910. Its principal innovations were as follows :—

(*a*) Currency notes of the denominational values of rupees ten and fifty were declared to be universal.

(*b*) General power was taken to make a similar declaration with regard to other notes, as might from time to time be convenient.

(*c*) The sub-circle system was abolished, but the privilege of double encashment was continued to sub-circle notes issued before the passing of the Act.

(*d*) Independent circles of issue were established at Cawnpore, Lahore and Karachi, in place of the existing sub-circles, and power was retained to add to the number of circles if desired. The sub-circle of Calicut was not replaced by a circle.

Simultaneously with the passing of the new Act, notifications† were issued under it, (1) establishing circles of issue at Madras, Bombay and Karachi, and defining their new limits; (2) declaring that currency notes shall be issued of the values of rupees five, ten, fifty, one hundred, five hundred, one thousand and ten thousand only; (3) revoking Notification No. 1843 of the 12th March 1872, which allowed the payment of Government dues in notes of any issue, irrespective of Presidency or circle; and (4) appointing the Accountants General for the time being of the United Provinces, the Punjab and Bombay to be Commissioners of Paper Currency in charge respectively of the Cawnpore, Lahore and Karachi circles. A further necessary measure was to provide‡ by executive order for discontinuing the receipt of foreign circle notes of Rs. 100 and upwards by telegraph and post offices and by railways. Twenty-rupee notes were not to be re-issued when they returned from circulation, but as long as any of them remained in the hands of the public it was decided to treat them as universal notes. By Notifications§

* Telegram dated the 18th March 1909.
† Finance Department Notifications, Nos 880A, 881A, 882A and 883A, dated the 18th February 1910.
‡ Finance Department office memoranda, Nos. 1097A and 1098A, dated the 2nd March 1910.
Commerce and Industry Department letter, No. 2279, dated the 21st March 1910.
§ Finance Department Notifications, Nos. 2716A and 2717A, dated the 27th May 1910.
Foreign Department Notification, No. 1809-I.B., dated the 14th September 1910.

of the Finance and Foreign Departments issued in May and September 1910, the provisions of the Paper Currency Act were extended to the territories administered by the Agent to the Governor General in Baluchistan; and these, together with the districts of British Baluchistan, were declared to fall within the Karachi circle of issue. By subsequent notifications* the Act was extended to the areas in the Hyderabad State in which the Governor General in Council exercises jurisdiction through the Resident in Hyderabad and these areas were included in the Bombay circle. The issue of universal notes in regular form did not commence until October 1910, but prior to their introduction all notes of the specified values had been treated as universal.

Proposal to enlarge the powers of the Presidency banks.

6. The question of increasing the powers of the Presidency banks was still under discussion at the close of Lord Curzon's administration.† The more ambitious proposal to establish a central bank for India had perforce been abandoned; but the Government of India held strongly to the opinion that the industrial development of the country demanded what had in the course of the discussion been aptly described as "complete free trade in capital," while they considered that the establishment of a stable exchange warranted the admission of the Presidency banks to the London market. Certain minor proposals for extending the powers of these banks in India had been accepted‡ by the Secretary of State in February 1905; but Government had delayed giving legislative effect to them pending the decision of the major question, still outstanding, of the admission of the banks to the London market. In a despatch§ which issued in October 1905 the Government of India reiterated their views in favour of granting this concession. That important despatch does not fall within the period of the present review, and it is not possible to summarize here the arguments advanced by the Government of India. It will be sufficient to state the recommendations actually made. They desired to give powers to the Presidency banks to buy bills on India from the proceeds of loans contracted in England, subject to the conditions that such loans should be contracted only when the Indian bank rate exceeds 6 per cent. and that they should be repaid after an interval of not more than six months. They proposed to allow the purchase of bills on England for the purpose of repaying English loans only. They were no longer in favour of the suggestion that the grant of these powers should be accompanied by the maintenance of a fixed minimum balance, since it was not possible to devise a practical remedy for default. The Secretary of State found‖ himself unable to accept the arguments put forward by the Government of India. He stated that the restrictions which it was proposed to place on borrowing in London would not prevent the Presidency banks from engaging in a cycle of speculative dealing in bills; and he apprehended that the admission of these banks to the London market would involve an unfair competition with the Exchange banks. He suggested as a partial alternative that the Government of India might find it an advantage to keep somewhat higher treasury balances than in recent years, in order to assist the Presidency banks in the busy season.

7. Obliged to abandon the more important concession, the Government of India proceeded to give effect by legislation to the minor proposals to

* Foreign Department Notifications, Nos. 1831I. B. and 1832 I. B., dated the 16th September 1910.
† Summary of Lord Curzon's administration, page 31.
‡ Secretary of State's despatch No. 15 of the 3rd February 1905.
§ Despatch to Secretary of State, No. 351 of the 19th October 1905.
‖ Despatch from Secretary of State, No. 27 (Financial), dated the 16th March 1906.

which they had already obtained the occurrence of the Secretary of State. The law, as originally formulated in the Presidency Banks Act of 1876, had previously been modified by two Acts, namely, the Presidency Banks Act of 1879, which empowered the banks to borrow in India, and the Presidency Banks Act of 1899, which enabled them to deal in the securities of the Bombay Improvement Trust. The new Act (I of 1907) extended their powers by allowing them (1) to deal in securities of State-aided railways or railways financed by district boards, (2) to make loans for a period of six instead of three months, (3) to grant overdrafts up to Rs. 10,000 instead of Rs. 2,000 only, (4) to take over, with the sanction of the Government of India, the business of any other bank in British India, (5) to lend money to Courts of Wards and (6), in the case of the Bank of Madras, to deal in Ceylon Government securities. A proposal to allow the banks to draw sterling bills on London for the purpose of the remittances of their customers up to a limit of £200 in any one case was negatived* by the Secretary of State.

Facilities offered for the development of European banking methods.

8. The advisability of encouraging the extension of European banking methods by permitting private banks to undertake Government business in places where the Presidency banks are not yet established, and by offering the latter more favourable terms in respect of public balances held at newly opened branches, had already engaged the attention of Government in 1905.† The negotiation with private banks for the transfer of Government treasury business at certain selected centres did not come to a satisfactory conclusion and eventually had to be dropped. The Presidency banks have, however, availed themselves in a number of cases of the more favourable terms offered to them and during the last four years a branch of the Bank of Bengal has been opened at Simla, of the Bank of Bombay at Hyderabad (Sind), Indore, Jalgaon, Sholapur, and Rajkot, and of the Bank of Madras at Coimbatore, Guntur and Masulipatam. The Government of India have also ruled‡ that the balances of *ex-officio* accounts kept by Government officers with branches of Presidency banks should not be treated as part of the general treasury balance for the purpose of determining the liability of Government for interest on overdrawals.

Crisis due to the failure of Messrs. Arbuthnot & Co.

9. Towards the end of October 1906, the failure of Arbuthnot and Company and the subsequent suspension of Binny and Company produced for a time a commercial panic in Madras. The intervention of the Government of India was requested by the local Government, which witnessed with some alarm the demands made by depositors on the balances of the Bank of Madras. The specific requests§ made to the Government of India were that they should as a precautionary measure (1) transfer all the currency balances held at branches of the bank to treasury account; (2) allow the Government account at the head office to stand as full as possible; and (3) guarantee their readiness to give the bank a loan against Government paper without expecting it to raise its bank rate. The Government of India were for reasons which do not require restatement unable to sanction the first request; but they agreed to the second and third proposals. The crisis however passed away without any loan from Government actually being required by the Bank.

* Telegram from Secretary of State, dated the 26th September 1906.
† Summary of Lord Curzon's administration, page 33.
‡ Government of India, Finance Department, letter No. 3991-A. of the 24th June 1907.
§ Telegram from Madras Government of the 5th November 1906

The triennial programme of railway capital expenditure. Progress made in 1905-6.

10. The attempts made to secure a broader and, in some sense, more independent policy in railway finance are fully described* in the summary of Lord Curzon's administration. The practical result of those attempts had been the creation of the Railway Board in February 1905, the adoption of a three years' programme of capital expenditure, and the concession of the right to allow the reallotment of lapsed grants up to a maximum of Rs. 50 lakhs per annum. Under the triennial programme the annual outlay contemplated was £10 millions, a figure much in excess of any hitherto attained. This extended programme was designed to take effect from 1906-7. Meanwhile the year 1905-6 had witnessed considerable progress in railway expansion. The length of open lines was increased from 27,728 to 28,611 miles; the Noakhali and the Bengal Central Railways and the important Bombay, Baroda and Central India system were acquired, and good progress was made with the construction of the Nagda-Muttra, the Pench Valley and the Vizianagram-Raipur lines. The net earnings (£13,300,784) showed only a slightly lower percentage on capital outlay (5·45) than the record figure of the previous year (5·46). The net profit to the State after meeting all charges for interest on capital, annuities for the purchase of lines and similar charges was £2,001,966. Excluding from the account charges that might properly be classed as repayment of capital the net surplus was £2,729,661.

Progress in capital expenditure in 1906-7.

11. Practically the whole of the 15 crores provided for capital outlay in the triennial programme was expended in 1906-7. The claims of the open lines and lines under construction were so pressing that it was only possible to expend £176,700 on new lines. The total mileage of open lines was however carried on from 28,611 to 29,303 miles, and the Kalka-Simla Railway was acquired by the State. From the point of view of income the year was on the whole a good one. The gross earnings exceeded those of any previous year and, though the increased demand for expenditure in order to bring rolling stock up to a high standard of efficiency absorbed a larger share than usual of revenue, the net surplus rose to £2,313,541 or, excluding charges properly attributable to capital, to £3,065,676.

Progress in 1907-8; action taken on the preliminary report of the India Office Departmental Committee on Indian railway finance.

12. In the following year it seemed at first that a temporary set-back in the programme of development was inevitable. The great bulk of railway capital expenditure is incurred from borrowed funds, and the condition of the money market is therefore a factor which must ultimately determine the measure of capital expenditure. During the previous three years Government had raised in this country loans aggregating 11½ crores of rupees; and local authorities had also made large demands on the market. Conditions in London had for some time been unfavourable for borrowing on a large scale. In 1906-7 it was found necessary to adopt an interest rate of 3½ *per cent.* in the case of the loan actually put on the English market, in place of the 3 *per cent.* rate at which it had been possible in recent years to raise money; in March 1907 the price of India 3 *per cent.* sterling stock stood at 90 as compared with 97 a few years before; and the bank rate had ruled exceptionally high throughout the winter. These remarks do not relate solely to construction for which funds are provided by the State. They are applicable in at least an equal degree to construction which is financed by private agency, whether with or without a State guarantee. Dear money checks new business, and the credit of private companies

* Summary of Lord Curzon's administration, pages 33-36.

is no more exempt from the limitations of the money market than that of the State. On the contrary, it has happened only too often that undertakings which possess borrowing powers of their own have been unable to raise the sums required by them for capital outlay, and have been obliged to fall back on the Secretary of State to provide them with funds. In the circumstances the Government of India were reluctantly compelled to curtail the railway programme and reduce the standard provision of £10 millions in the triennial programme to £9 millions. No new lines were to be undertaken, and the greater part of the grant was to be utilised for providing additional rolling stock on open lines. This reduction in the programme not unnaturally met with an unfavourable reception from the commercial community. The difficulty experienced in financing a 15-crore programme almost at the very outset revived in a somewhat aggravated form the controversy regarding Indian railway finance. The immediate point of pressure was not the construction of new lines, but the provision of adequate rolling stock on existing systems. In the north there had been serious complaints of the delay in moving the wheat harvest to Karachi; while the growing development of coal and manganese had overtaken the resources at the command of the systems of eastern and central India. A deputation from the Indian railway companies, and a second representing the East India merchants, waited* on the Secretary of State to protest against the reduction in the annual programme. The advocates of a more vigorous railway policy found occasion to reiterate their demand for a decree divorcing railway finances from any connection with the general Indian revenues. The Government of India addressed† the Secretary of State on the subject in April 1907. They recognised that their first duty in regard to railways was to equip the open lines sufficiently to enable them to deal promptly with all traffic offered to them. The provision for the improvement of working facilities, such as the doubling of tracks or strengthening of permanent way, seemed to be adequate. The demands of open lines for new capital expenditure otherwise than for rolling stock had for some years been given precedence over other demands, and the provision for this purpose had been increased from 211 lakhs in 1903-4 to 445 lakhs in 1907-8. Special measures were, however, now required to secure additions to the rolling stock, and the Government of India urged on the Secretary of State the necessity of forming a central waggon reserve at a cost of about £3,000,000. For this purpose it would be necessary to raise a sterling loan outside the ordinary railway programme, and to spread the borrowings over three years. The effect of this despatch has already been indicated in paragraph 11 of Chapter I of this summary. Following the advice given in the interim report of the departmental committee on Indian railway finance and administration, to whom he had referred the matter, the Secretary of State allotted‡ a sum of £1 million from the Gold Standard Reserve for distribution to Indian railway administrations to meet expenditure on rolling stock and on improvement of open lines in 1907-8. The budget provision for railway expenditure was thus restored to the full figure of £10 millions contemplated in the triennial programme. The funds assigned for capital expenditure did not allow of the starting of any new lines; but 985 miles were added

Interim Report, dated 6th June 1907.

* Despatch from Secretary of State, No. 57 Railways, dated the 24th May 1907.
† Despatch No. 28 Railway, dated the 25th April 1907.
‡ Telegram from Secretary of State, dated the 11th June 1907.

to the existing mileage, which at the end of the year stood at 30,288 miles. The returns of the year were unfortunately less favourable than had been expected. The net earnings in fact showed an actual set-back as compared with the previous year and represented a return on capital of only 4·84 *per cent.*, as against previous percentages of 5·26 and 5·45. The determining factor, which tends to push itself steadily to the front, is the growth in the relative burden of working expenses. The feature was recognized as a disquieting one: and the suggestion was made in more than one quarter that the Indian railways, no less than those of the United Kingdom, were reaching the stage when the receipts from new traffic do not cover the cost of carrying it.

Report of Indian Railway Finance Committee of 5th March 1908.

13. For 1908-9 it had been decided to provide once more the entire amount (£10 millions) contemplated in the programme. In the meanwhile the full report of Sir J. L. Mackay's Committee was received. The Committee found itself unable to assign a definite limit to the amount that could be remuneratively devoted to the development and expansion of the Indian railway system. Unable to concur in the suggestion that railway finances should be treated as altogether apart from the general revenues of the Government of India, it approved of the policy hitherto adopted of fixing periodically a standard of annual expenditure. The effective limit of the amount which can be spent in any one year is determined simply by the sum that can be raised in the market. In the opinion of the Committee it would not be prudent for the Secretary of State to contemplate raising in London in normal years more than £9,000,000, making with £5,000,000 usually obtainable in India a total provision of £14,000,000, of which all except about £1½ millions would be available for capital outlay on railways. On this basis the Committee recommended that the programme of annual expenditure should for the present be fixed at £12½ millions, or a total of £100 millions in the next eight years. The exact method of providing this sum would be somewhat as follows: £7½ millions would be raised in England by direct and indirect borrowing. The remaining £5 millions would be provided in India in the following proportions, (*a*) £¾ million from revenue surplus, (*b*) £½ million from annual appropriation from revenue for reduction or avoidance of debt, (*c*) £¾ million from savings bank deposits, (*d*) £2 millions from rupee loans, (*e*) £1 million from half the profits of rupee coinage.

Results of 1908-9.

14. The discussion which followed the receipt of the Committee's report had not reached a definite conclusion at the end of 1908-9, but the financial history of that year afforded unmistakeable evidence of the necessity for approaching with caution the proposals now put forward. The Committee had assumed that Indian railways would continue to afford to the general revenues of the country a steady profit over and above the interest charges payable on loan money; that the balance of trade would enable a sum of at least a million sterling to be set apart from the proceeds of rupee coinage; and that India would be able to contribute towards the progress of construction some £¾ million from surplus revenues and £2 millions from rupee loans. Each of these anticipations was falsified in turn. The revenue surplus disappeared; coinage entirely ceased; the rupee loan produced only £1¼ millions; and finally, the railway returns, which had been estimated to produce a net revenue of £13,729,500 and a surplus of £2,406,500, actually terminated with a net revenue of only £9,958,000 and a deficit of £1,242,300. The explanation of the Railway Board attributed this result partly to trade

depression, which affected the gross traffic receipts, and partly to an increase in working expenses for which insufficient provision had been made in the estimates. Labour troubles were said to have necessitated a revision of salaries; high prices to have entailed heavy expenditure on grain compensation allowances; and charges for coal on the majority of railways to have been unusually high. The immediate effect of this combination of circumstances on the resources of Government was serious. The year closed with a deficit of nearly three and three-quarters millions sterling, and it became necessary in consequence to proceed with great caution in framing the railway budget for the ensuing year. Arrangements had originally been made to provide for the full allotment of £12½ millions. This was now found to be impossible and the programme was, with the approval of the Secretary of State,* restricted to the former figure of £10 millions. The ultimate considerations involved were not less serious. For the first time since 1899-1900 the working of the Indian railways had resulted in a loss to the State. Serious doubts were cast on the possibility of giving effect to the extended financial scheme recommended by Sir James Mackay's Committee. It is certain that this can only be done at a time when Indian trade has once more reached a steady level of prosperity; and in the meanwhile the financial administration of the Indian railways must be placed on a basis which will effectually guard against the reappearance in the final return of heavy working expenses unprovided for in the estimates.

Progress in 1909-10 and proposals for 1910-11 and 1911-12.

15. The events of 1909-10 did not tend to remove the doubts which had arisen. There was considerable stagnation of trade in the early months of the year, and it was not until its closing stages that the effects of the revival made themselves felt upon the railway returns. The net earnings eventually amounted to (approximately) £12,490,800, representing a return on capital outlay of 4·37 *per cent.* only. The length of open lines had by this time been increased to 31,693 miles. In framing the programmes for 1910-11 and 1911-12, both the Secretary of State and the Government of India recognised that an attempt to work up to the figure of £12½ millions was out of the question. In accordance with the decision mentioned in Chapter I of this summary, the profits of coinage were for the present to be applied in their entirety to the augmentation of the Gold Standard Reserve, and no supply of funds from this source could be expected. This would reduce the capital which could be found in India to a maximum of £4 millions. In the two years, the English source of supply would be materially restricted by the necessity of raising some £4 millions of loan, entirely apart from the programme, in order to pay off the debentures of certain railway companies which had been taken over by the Secretary of State at the time of purchasing their lines. In these circumstances, it was obviously impossible to attempt to find for railways a capital sum much in excess of that which had been provided in 1909-10. The grant for 1910-11 was accordingly taken at £10,867,000, and in October 1910 the figure for the coming season was tentatively fixed at £8,500,000.

Contribution to capital expenditure by Native States.

16. In this context should be mentioned a measure which will doubtless result in helping to some extent to expand the programme of railway construction. In 1906 the Secretary of State gave his assent† to a proposal that Native States should be allowed to contribute towards the capital expenditure

* Telegram dated 9th March 1909.

† Despatch from Secretary of State, No. 150 (Finance), dated the 7th December 1906.

of State railways constructed within their territorial limits. The conditions on which such contributions were to be accepted were that the net earnings and losses of each system should be divided between the Government of India and the Native States in proportion to the capital contributed by each, and that the latter should have no share in the management of the lines. In the following year the Secretary of State agreed* to a further extension of the same principle. Native States were to be allowed to invest funds on a profit-sharing basis in lines outside their own territorial limits, but adjacent to those limits and likely to benefit the States concerned. Contributions in this case are to be accepted only when funds can be provided from surplus cash or securities in possession of the States. All investments made by Native States are to be subject to the condition that the Darbar shall not part with its interest except to the Government of India. The Government of India in 1907 announced† to the Secretary of State their decision of abandoning the proposals, which originated in 1906, to allow district boards to levy a cess for the construction or guarantee of light railways. This power exists already in Madras; but it was held that its extension to other provinces militated against the accepted policy of abolishing all imposts on the land subsidiary to land revenue proper. Projects for legislation with this object which had been undertaken in Bombay and Bengal were accordingly abandoned. The question has, however, again been taken up by the Home Department in connection with the recommendations of the Royal Commission upon Decentralization, and it is now under reference to local Governments.

Proposed levy of a railway cess by district boards.

Construction of local feeder lines.

17. Questions connected with local feeder lines of railway have received considerable attention during the past five years. The demands of the larger systems have necessitated the almost entire exclusion of local branches from the programme, and attempts have therefore been made to secure their construction independently of the imperial grant. It had been hoped that progress in this direction might safely be left to private enterprise. As, however, it was found that the terms offered by Government to capitalists did not prove sufficiently attractive, the whole question was carefully reconsidered, with the result that revised terms have recently received the sanction of the Secretary of State.‡ The new rules are more favourable to promoters than those which they superseded, and with their introduction a more rapid development of feeder lines may reasonably be expected. Another attempt to further the promotion of such railways independently of the programme was embodied in the proposal of Lord Curzon's Government to allow such local Governments as possess *quasi*-permanent provincial settlements to guarantee interest on capital raised by private enterprise for the construction of branch lines. After correspondence on the subject which lasted for some years, the Secretary of State, toward the end of Lord Minto's term of office, accepted§ the principle involved, and the details of the scheme are now under consideration.

Suggestion for the employment of surplus provincial funds on feeder lines.

18. In the meantime the Governments of Bombay and the Central Provinces had come forward with a suggestion which went even further than the proposal last mentioned. They desired permission to employ surplus pro-

* Despatch from Secretary of State, No. 139, dated the 4th October 1907.

† Despatch to Secretary of State, No. 269, dated the 25th July 1907.

‡ Despatch from Secretary of State, No. 104 Railway, dated the 17th December 1909, and No. 33 Railway, dated the 6th May 1910.

§ Despatch from Secretary of State, No. 104 Railway, dated the 17th December 1909.

vincial funds on the construction of feeder lines. To this the Government of India felt unable to agree. They pointed out* that, so far as a local Government is concerned, provincial balances are represented by a book credit on which, subject to budget provision, it can draw for expenditure on local services. In actual fact, however, they form part of the general cash balances of the Government of India. They are not laid aside or locked up infructuously, but are taken into full account in the estimate of ways and means for which the Government of India are responsible. Any reservation of such funds for provincial enterprises would mean an equivalent reduction in the Imperial railway programme. The Government of India could not view such a result with equanimity. It is essential that the programme should be framed with a view to the interests of India as a whole, and the central authority is clearly in the best position to gauge those interests. The proposals of Bombay and the Central Provinces were therefore negatived.

Irrigation finance; progress made with financial programme outlined by Irrigation Commission.

19. In May 1905 the Government of India submitted to the Secretary of State their decision on the proposals of the Irrigation Commission. The programme accepted involved an expenditure of £29⅓ millions in addition to the works already in progress, of which £13 millions were designed for protective works and £6 millions for works which could not be definitely classed as productive. Steady progress has been made with the execution of this programme. Up to the end of March 1905 the total expenditure on productive works had been £24 millions and on protective works £1¾ millions, while the commanded area was returned at 43½ million acres. Expenditure in the course of 1905-6 brought the total outlay up to £24⅔ millions on productive works and £2 millions on protective works, and increased the commanded area to 46 million acres. The net return on productive works was 7·7 *per cent.* A considerable increase in capital expenditure was possible in the following year, the outlay on productive works being brought up to £25¾ millions and the commanded area to 50 million acres. The return of productive works rose to 9·25 *per cent.* on the capital outlay. In 1907-8 the capital outlay on productive works was increased to £27 millions and that on protective works to nearly £2½ millions. The net return on productive works was 8·20 *per cent.* In 1908-9 the capital outlay on productive works was further increased to nearly £28 millions, and the net return on capital outlay was 8·17 *per cent.* The commanded area then stood at 47 million acres of culturable land. By the end of 1909-10, £29 millions had been spent upon productive and £3 millions upon protective works. The yield of productive works in that year was at the rate of 7·94 *per cent.*

Financing of protective works.

20. Funds for the construction of protective works have hitherto been provided from the Famine Insurance allotment, a moiety of which, or 75 lakhs of rupees, has been held available for the development of protective railways and irrigation. The few railways of this description which still remain to be undertaken could be financed with ease from this source. The Irrigation Commission, however, recommended an extended programme of protective irrigation works, which demanded the expenditure of a crore of rupees in each of the next twenty years. When, therefore, the Government of Bombay applied for an annual grant of 36 lakhs for such expenditure, the Government of India took the opportunity of suggesting† to the Secretary of State

* Letter to the Government of Bombay, No. 1913-A., dated the 16th April 1909.

† Despatch No. 332 (Financial), dated the 5th November 1908.

the advisability of increasing the grant for protective works in non-famine years from 75 lakhs to either 100 lakhs, or such sum, not exceeding that amount, as it might be possible to spend usefully in any given year. They pointed out that a corresponding enhancement of the Famine Insurance allotment was not essential. There were two possible methods of attaining the desired result. They might either raise by 25 per cent. the figure of 100 lakhs for which they endeavour to budget in ordinary years, or leave the revenue surplus unchanged and increase the annual borrowings by a similar amount. The former of these methods would provide for an increase of protective expenditure by maintaining a somewhat higher level of taxation than would otherwise be necessary; the second would effect the same result by retarding the pace at which unproductive was converted into productive debt. The Government of India suggested that neither of these two alternatives should be definitely prescribed to the exclusion of the other. Both should be held admissible, and the selection of the course to be adopted should be made at budget time on a consideration of the circumstances of the particular year. The Secretary of State, while he agreed* to the enhancement of the grant for protective works, objected to both the proposed methods of securing it. He deprecated an increase in borrowing on the ground that it would inevitably lead to an extension of sterling loans. The maintenance of a surplus of 125 lakhs would not, he thought, always be justifiable or even possible. He therefore preferred to secure the necessary increase in the allotment by opening in the accounts, under the major head Irrigation, a new sub-head to be called "Expenditure on protective irrigation works in addition to that charged under Famine Relief and Insurance." He authorised the Government of India to adopt this course whenever they could do so without reducing the estimated surplus below 100 lakhs. On a further representation from the Government of India, he consented† to dispense with the condition, and to allow the Government of India to incur the additional expenditure whenever they can conveniently do so, irrespective of the size of their surplus. The permission will be utilised in future, as suitable occasions arise.

* Despatch No. 4 P. W., dated the 29th January 1909.
† Despatch from Secretary of State, No. 14 P. W., dated the 3rd June 1910.

CHAPTER III.

THE SYSTEM OF ACCOUNTS.

Change in the manner of exhibiting the earnings and expenses of railways.

1. During the year 1906-07 an important change was effected in the manner of exhibiting the earnings and working expenses of railways. The existing form of account (the modification of which had been unsuccessfully attempted by the Governments of Lord Dufferin and Lord Curzon) had shown the gross traffic receipts on one side of the account and the working expenses on the other. In the days when the railway figures were only a small part in the finances of the Empire this system was not open to objection. But with the growth of railway operations these figures began to assume* a far more important position in the Imperial budget. In 1907 the working expenses of State railways amounted to no less than one-seventh of the total expenditure from annual revenues; the steady growth of the figure tended to encourage the spread of misapprehensions as to the growth of Indian taxation and expenditure, and exposed the Government to misleading comparisons as to the relative cost of different branches of administration. The reform effected† consisted in bringing the working expenses over to the revenue side of the account and deducting them from the gross traffic receipts. The interest on railway debt is still entered as expenditure. The result in the estimates of 1907-08 was to effect a reduction of the totals on both sides by more than 13½ millions. It would not have been justifiable to exclude altogether from the accounts the enormous sums of actual receipts and expenditure which would have disappeared had merely the net profits from railways been exhibited. But the new arrangement, while it shows both the gross receipts and the *per contra* charges, makes it possible in totalling the revenue figures to bring the net earnings alone into the account. As already stated, the interest on railway debt has been left in its original place; to have brought it over to the revenue side of the account as a deduction from the gross receipts would have necessitated a large minus entry in the column for revenue accruing in England. It has not at present been thought necessary to apply the same procedure to the net receipts of irrigation, post offices, forests, or telegraphs. The same general principle applies as to the railway figures; but the totals are not yet sufficiently large to cause any serious distortion of the true revenue and expenditure of India.

Minor changes in the form of railway accounts.

2. Two changes of minor importance were at the same time made in the form of the railway accounts. One is the exhibition by a separate entry of the surplus profits which are paid to companies working State lines. These profits were previously included under the head "Working Expenses," which is not a suitable description of the charge. The other change is the appearance of the new sub-head "Sinking Funds" under railway expenditure. The amounts now shown in this manner were formerly included in the entry for "Annuities in purchase of Railways;"‡ but they really represent payments towards the redemption of India Stock which has been created in exchange for annuities and debentures of purchased Guaranteed Railways.§ Apart from the modifications actually effected,

* Government of India despatch No. 3, dated the 17th January 1907.
† Secretary of State's telegram, dated the 5th February 1907.
‡ Secretary of State's despatch No. 17-Finl., dated the 9th February 1906.
§ Despatch to the Secretary of State, No. 441, dated the 13th December 1906

the Government of India were in favour of certain further changes in the form of the railway revenue accounts. The full amount of the annuity payments on account of the purchase of railways is at present shown as a charge against railway revenues, though the capital portion of the annuity really represents repayment of debt incurred on account of the cost of purchase of the line. The Government of India considered that the existing procedure is not strictly correct since (among other defects) it has the apparent effect of charging railway revenues with what is really capital expenditure. The proposals made to the Secretary of State may be summarized as follows:—(*a*) To charge against the railway revenue account under the head "Annuities" only that portion of the annuity payments which is actuarially calculated to represent interest on unredeemed capital. (*b*) To charge the remainder of the annuity payments, together with sinking fund payments, against a new head in the Finance and Revenue accounts *outside* the railway revenue account. (*c*) To deduct from the total of ordinary debt in each year's accounts and to add to the total of railway debt the amount of the capital repaid to the end of the year by means of annuities. The above recommendations were not accepted by the Secretary of State,* by whom similar proposals had been negatived in the past. He stated, however, that he fully realized the importance of including in the Finance and Revenue Accounts information regarding the effect of the annuity and sinking fund payments on the financial position of Indian railways, and he suggested that, in order to make clear the cumulative effect of these payments, a statement should be included in section N of the Finance and Revenue Accounts of each year to show the total liabilities redeemed to the end of the year by annuities and sinking fund payments. Effect has now been given to this suggestion.

Apportionment of expenditure on famine relief between Imperial and Provincial revenues. Provincial expenditure on famine relief.

3. During the course of the year 1906-07, the Government of India had under consideration the important question of the apportionment of famine expenditure between provincial and imperial revenues. The established system was that described by Lord Lytton's Government in 1877 in the following terms:—

> "Distress should be met from local resources as far as possible; district resources should only be responsible when local resources fail; provincial resources when district resources fail, and Imperial resources last of all."

But in practice this principle was difficult to maintain and its value had always been impaired by lack of definition. The stage at which the burden shifted from the provincial to imperial account was wholly indefinite; the standards of expenditure adopted in the provincial settlements made no provision for the cost of famine relief; and a large famine inevitably involved the immediate dislocation of provincial resources.

To obviate these defects the scheme described below was framed by the Government of India, and after being generally approved by local Governments was sanctioned by the Secretary of State.† Its ruling principle is to enable each local Government whose territories are liable to famine gradually to build up a reserve of credit with the imperial Government, on which it will be at liberty to draw when it becomes necessary to incur expenditure on famine relief. The means of creating this reserve of credit will be provided

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* Despatch No. 48-Finl., dated the 12th August 1907.
† Despatch No. 5 (Finl.), dated the 11th January 1907.

from imperial revenues, in the form of an increase to the annual fixed assignment of each local Government. It should be explained that in the imperial section of the budget a sum of 1½ crores is annually provided under the heads " Famine Relief and Insurance." From this sum an allotment is first made for the charges of actual famine relief, and for expenditure on protective railways and irrigation works.* The balance, if any, of the 1½ crores is then charged under the head " Reduction or avoidance of debt " in the imperial section of the accounts. In a year which is free from famine, the provision under this head must not be less than 75 lakhs. The arrangement now inaugurated is, in effect, to earmark half this sum, or 37½ lakhs, as a reserve which will accumulate at the credit of local Governments for famine expenditure. The Government of each of the six provinces liable to famine will accordingly, with effect from the year 1907-08, be credited annually with the fixed sum shown in the second column of the table below. Burma and Eastern Bengal and Assam have been subject to famine only in a very limited degree, and it was not considered necessary in their case to make any assignment.

Province.	Amount to be credited annually.	Limit of amount to be held at credit of Provincial Government.
1	2	3
	Rs.	Rs.
Madras	2,50,000	25,00,000
Bombay	13,70,000	80,00,000
Bengal	2,60,000	25,00,000
United Provinces	4,50,000	30,00,000
Punjab	1,40,000	10,00,000
Central Provinces	12,80,000	80,00,000

The amount to be credited to each province, which is calculated with reference to the actual famine expenditure therein during the 25 years ending with 1905-06, will continue to accumulate until the aggregate amount at its credit reaches the limit shown in the third column of the table. The annual assignment and the addition to outstanding credit will then cease until it has been reduced by expenditure on relief. The maximum limit was fixed to prevent the unnecessary accumulation of credit, and it has been based in each case on a consideration of the circumstances of the province, its liability to famine, the maximum expenditure which it has incurred during years of famine and the changed conditions, as regards railway communication and irrigation facilities, under which the famine administration is likely to be conducted in the future.

The debits of provincial revenues will continue to be made up to the normal limit of 37½ lakhs of rupees (or any lower figure that may become appropriate by reason of any province having already accumulated the full

* *Cf.* page 56 of summary of Lord Curzon's administration.

amount allowed) notwithstanding that this may result in increasing the total debit under the group head "Famine Relief and Insurance" to beyond the $1\frac{1}{2}$ crores which it is usual to allot under it.

The same.

4 The scheme does not contemplate the creation of any actual fund.* When famine occurs, the local Government will be entitled to draw upon the amount standing to its credit to meet its famine expenditure, and charges thus incurred will be shown in the accounts as imperial expenditure instead of provincial as at present. In a famine of relatively small extent the reserve of credit will usually be sufficient to meet the whole charge, and the local Government will be secured from all dislocation of its ordinary finances. If, however, a famine should be widespread or severe, it is probable that the reserve of credit will before long be exhausted. When that happens, any further expenditure on famine relief will be equally shared between the imperial and the local Governments Both Governments will bear their share of the inevitable burden, and the local Government will have to support only one-half of the expenditure instead of the whole. If a famine should be further prolonged, it may happen that even this measure of assistance may be insufficient. It was therefore decided that, when in consequence of the prevalence of famine the balances of any local Government are depleted to such an extent that they fall below one-half of the prescribed minimum, further assistance shall be given from imperial revenues. The precise measure of this assistance cannot be decided beforehand, and it must be left for determination according to the circumstances of the occasion.

Working of the scheme for apportionment of famine expenditure.

5. As already shown, the scheme was brought into operation from the year 1907-08. To provide however for the contingency that a famine might occur before the province affected had accumulated a sufficiently strong reserve of credit to enable it to meet the charge, it was decided that any famine relief expenditure that might be incurred in the first five years should be treated as imperial up to a limit equal to five years' accumulated credits in the *pro formâ* account. It was further decided† in the case of Bombay and the United Provinces, where a considerable amount of expenditure (12 lakhs and 28 22 lakhs, respectively) had been incurred on famine relief during 1905-06 and 1906-07, to refund to these provinces the sums which they had spent on this account. The measures outlined above preserve in large measure the inducement to economy which was the sole apparent merit of the former system. For the more a local Government draws on its reserve of credit, the faster it will be exhausted, and the sooner will be reached the stage at which half the charges begin to fall on provincial revenues. On the other hand, they will protect the provincial Governments from the utter dislocation of their resources which a considerable famine almost immediately involves. If the famine is on a small scale, the protection is complete. If it is more extensive, the Government of India share the burden. In the worst case of all a point is definitely indicated at which a still larger measure of assistance may be claimed from imperial revenues. The new arrangement was immediately tested by the failure of the autumn monsoon of 1907. Famine expenditure has since been incurred in the United Provinces, Central Provinces, Bengal, Punjab, Madras and Bombay.

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* *Vide* page 56 of summary of Lord Curzon's administration
† Government of India (Finance), No. 1674-A., dated the 20th March 1907.

The following table shows at a glance how the scheme worked in these six provinces:—

(Figures in thousands of Rs.)

Province.	Amount of one year's credit.	Actual expenditure in 1907-08.		1908-09.		TOTAL	
	—	Imperial.	Provincial.	Imperial.	Provincial.	Imperial.	Provincial.
Central Provinces	12·80	1·45	..	11·18	..	12·63	..
Bengal	2·60	6·74	..	7·83	1·57	14 57	1·57
United Provinces	4·50	53·23	30·73	65·16	60 66	118 39	91·39
Punjab	1·40	32	..	1·36	..	1·68	..
Madras	2·50	..	..	·15	..	·15	...
Bombay	13·70	·15	..	·33	..	·48	..

Madras, Bombay, the Punjab and the Central Provinces received credits for the two years covered by the period, and as the total expenditure fell far short of these credits no employment of Provincial Funds was required. As regards Bengal and the United Provinces, the severity of the famine necessitated the application of the five years' credit rule, and the opportunity was taken of discussing the exact way in which that rule should be interpreted. It was finally decided that the five years' credit should be given once only to any particular province. In the event of a famine or famines occurring during the first five years of the arrangement, the expenditure will be borne by Imperial revenues up to a limit, in the aggregate, of five times the annual credit. Such assistance from Imperial funds will exhaust any smaller sum already at credit of the province concerned on account of the assignments of the current or of previous years; but it will not in any way affect the annual credits for future years. With the close of the year in which the famine charges are incurred, the accumulation of credit will recommence, and the province will be in the same position which it occupied when the new arrangement was introduced, with the one exception that it will no longer be entitled to the benefit of the five years' credit rule. The result of the application of the rule in the two provinces concerned has been as follows. In the United Provinces the expenditure in 1907-08 amounted to Rs. 83,96,000. Of this, Rs. 22,50,000, the amount of five years' credit, was treated as Imperial, and the remainder was divided equally between Imperial and Provincial. The year 1908-09 saw further famine charges of Rs. 1,25,82,000. Imperial assistance was then limited to Rs. 4,50,000, the annual assignment, and Provincial had to bear a moiety of the remainder. The province started 1909-10 with the fixed sum of Rs. 4,50,000 at its credit in the *pro formâ* account. In Bengal, the expenditure of 1907-08 amounted to Rs. 6,74,000, and this sum, being less than the total of five years' credits, was met entirely from Imperial revenues. In 1908-09 further charges of Rs. 9,40,000 were incurred. Imperial provided, in the first instance, Rs. 6,26,000, the sum which, added to the expenditure of Rs. 6,74,000 in the previous year, represented the five years' total. The remainder of the charges was divided equally between Imperial and Provincial; and the Province had, at the opening of the year 1909-10, the amount of its ordinary annual assignment (Rs. 2,60,000) at its credit in the account.

Change in the classification of the public debt and in the distribution of interest charges.

6. Certain changes in the system of accounts, which were introduced from 1906-07, though not affecting the actual distribution of funds, are important in comparing present with previous financial statements They relate to the distribution of the total public debt, and more particularly of the interest payable upon it, between the two great divisions of ordinary or non-productive and public works or productive debt. Previously any capital not specifically borrowed for the purpose, and devoted to productive railway or irrigation works, had a conventional rate of interest assigned to it in the accounts. This rate was above that actually paid on the total public debt; and hence too large a portion of the aggregate interest charge was shown as belonging to the productive debt, and too little to the ordinary debt.* It was decided to abandon this conventional rate, to strike an average actual rate of interest paid in each year and to divide it between the productive and ordinary debts in proportion to their amounts. At the same time advances by the Government of India to railway companies were shown as a debt incurred for railways, and not, as formerly, under the head of ordinary debt The transfer of interest from the ordinary to the productive head necessitated by the employment of capital on productive works had been made wholly in the Indian section of the accounts, which explains the large minus entry previous to 1906-07 under head 13.—"Interest on ordinary debt in India," and the large excess which the ordinary showed over the productive debt in England. The system adopted in 1906-07 of showing in the Home section of the accounts the transfer in respect of so much of the non-specific debt as appears in the Secretary of State's books as productively employed, reduces the Indian minus entry, and represents more accurately the character of the sterling debt.

Reclassification of marine charges

7. A further change, to which effect was first given in the Finance and Revenue accounts of 1906-07, was the splitting up of the head XVIII. and 21.-Marine into two distinct heads. It had previously combined under one head receipts and charges which were civil as well as military. For the future, charges which are properly civil in their nature (*i.e*, river flotillas, pilot services, coast lights, etc) will be carried to a new head 'Ports and Pilotage' amongst the group "Civil Departments," while the head "Marine" will be reserved for recording the expenditure of the Royal Indian Marine, and placed among the Military group (*viz.*, Army, Military Works and special defences).†

Exhibition in the accounts of the profits on rupee coinage appropriated to railway construction.

8. In 1907-08, in connection with the decision to appropriate half the profit on coinage to supplement the funds available for railway construction, a head "Profits on rupee coinage appropriated to railway construction" was opened in the capital section of the accounts, and it was decided to insert a statement in the Finance and Revenue Accounts showing on one side the amounts provided for capital expenditure on railways and on the other the amount of such expenditure.

Opening of a new major head of account.

9. In 1910-11, the Secretary of State authorised‡ the Government of India to expend upon protective irrigation works a further sum of 25 lakhs a year, in addition to the amount (ordinarily 75 lakhs) made available for this purpose from the allotment for Famine Insurance. In order to record this expenditure, a new major head was opened in the revenue accounts under the group

* Secretary of State's despatch No 143 (Financial), dated the 11th October 1907

† Government of India's despatch No. 338, dated the 29th August 1907. Secretary of State's despatch No. 141 (Financial), dated the 11th October 1907

‡ Secretary of State's despatch No. 14 (Public Works), dated the 3rd June 1910.

head " Irrigation," entitled " Expenditure on Protective Irrigation Works in addition to that charged under Famine Relief and Insurance."

Exclusion from the accounts of the Empire of transactions relating to local funds.

10. It remains to notice one further change of an exceedingly important character which was effected during the period, the decision, namely, to exclude from the general estimates and accounts all transactions relating to purely ' local ' funds. The system of embodying the revenue and expenditure of certain local funds in the general accounts and estimates of the Empire dated from a period before local authorities possessed the financial and administrative powers with which they are now invested. It was then natural and fitting, for the accounts of these funds represented transactions which were under the direct control and responsibility of Government. With the spread of financial decentralization, however, the position has altered; and it is clearly inexpedient to encumber the public accounts with entries of revenue which the Government no longer enjoys and of expenditure which it does not incur. The practical inconvenience of the old arrangements led many years ago to the exclusion of municipal and port funds which were at one time incorporated. The continued incorporation of the funds of district and local Boards and district councils was attended by similar inconvenience. It compelled those bodies, for example, to frame their budget at a much earlier date than would otherwise be necessary, it deprived them of the freedom of re-appropriation which municipal authorities enjoyed, and it tended to subordinate their requirements to those of provincial finance, and even occasionally to those of other local bodies. These difficulties were felt also in the case of the other and less prominent local funds which had hitherto been incorporated in the public accounts.

It was therefore decided to effect the complete exclusion of the accounts and estimates of district and local boards from the imperial budget and the statements appended thereto, thus following the practice in the United Kingdom, where the income and expenditure of County Councils are kept entirely separate from the public accounts. It is not intended that this change in the method of exhibiting the figures shall involve any alteration in the administrative arrangements of local funds. The exclusion of a fund from the general accounts will not imply the cessation of any control, statutory or otherwise, which Government may hitherto have exercised over its administration, nor any alteration in the status of its employés. The transactions of district and local boards will continue to be set forth in full in the Finance and Revenue Accounts, but they will there be shown in a special appendix as is already the case with the accounts of municipalities and Port Trusts.

11. As a corollary to the decision to exclude these funds it was necessary to take some action with regard to the minor incorporated funds. The decision took the form of ordering that, where the revenue has not been specially assigned to local management, and the expenditure is under the orders of Government, the fund should cease to have a separate existence, and that its accounts should be absorbed in the imperial or provincial accounts according to the facts of the case. The complete elimination of the columns for local receipts and expenditure from the imperial budget and accounts took effect* for the first time in the yearly accounts

* Secretary of State's despatch No. 147 (Financial), dated the 18th October 1907.

of 1908-09, though in the statements appended to the Financial Statement for 1908-09 the figures for 1906-07 (accounts) and 1907-08 (Revised estimates) were recast to show the effect of the change. It may be noted that the general result is to exclude a sum of approximately £2,433,000 of revenue and £2,231,000 of expenditure from the accounts of the Empire.

In connection with this exclusion the debt head "Capital Account of Local Boards" has been omitted from the Government accounts As, however, the loans granted to Local Boards by Government for expenditure on the construction of railways are included within the railway programme of the Government of India, the debits for such loans are now shown in the accounts under a new section entitled "Loans to Local Boards for Railway Construction."

CHAPTER IV.

Revenue, Expenditure and Taxation.

General character of the period.

1. The period of Lord Curzon's Viceroyalty had been distinguished by a continuous expansion of revenue and a succession of large surpluses. In making provision for the financial needs of the country, the main problem before Government had been that of reducing the chronic excess of revenue over the ordinary expenditure of India. This problem was vigorously attacked from both sides. Expenditure was increased by the grant of substantial sums in aid of particular branches of the public service, and receipts were diminished by means of extensive remissions of taxation. The history of Lord Minto's term of office has been of a more chequered description. For the first two years of his Lordship's administration, the era of prosperity continued, and resort was freely had to both methods of reducing the margin between receipts and outgoings. In 1908-09 a serious set-back occurred. The prospects of the year pointed to a comparatively small surplus and, while provision was made for a limited amount of financial assistance to the provinces in connection with certain desirable reforms, the grant of relief to the general tax-payer was found to be impracticable. The season turned out even worse than had been anticipated and the accounts finally closed with a heavy deficit. In the two remaining years of the period, Government were faced by the need of observing rigid economy, and in 1910-11 they were unable to balance their budget without the imposition of fresh taxation. A detailed description of the events of the five years is given in the following paragraphs.

Surplus of 1906-07; grants in aid of various reforms.

2. The year 1905-06 closed with a surplus of £1¾ millions and it was estimated that the maintenance of taxation on the same basis in 1906-07 would produce a surplus almost equally great. It was accordingly decided, with the approval of the Secretary of State,* to employ the two now recognised methods of equating revenue with expenditure. Grants were made to provincial Governments to enable them to carry out important measures of reform, while the burden on the general public was simultaneously reduced by a remission of taxation. The particular services selected for subvention were three,—police, agricultural development and research and education. The first two of these received† recurring grants of 25 and 4 lakhs respectively, the assistance in each case being additional to that which had been given in the previous year. In aid of education a recurring grant of five lakhs was allotted.† Of this, approximately one-half was to be devoted to technical education and the remainder to the special needs of European and Eurasian pupils.

The same: lightening of the burden borne by the agricultural classes.

3. In selecting taxes for remission, Lord Minto's Government made an important departure from the policy of their predecessors. In former years the great mass of the poorer population had been considered in the reduction of the salt-duty, and the commercial classes in the enhancement of the limit of exemption from income tax. Specific assistance to the purely agricultural community had been confined to the relief afforded by the abolition of the

* Despatch to the Secretary of State, No. 9, dated the 11th January 1906.
Telegram from the Secretary of State, dated the 13th February 1906.
Telegram to the Secretary of State, dated the 2nd March 1906
Telegram from the Secretary of State, dated the 6th March 1906.

† Page 10 of the Financial Statement for 1906-07.

famine cesses levied in the provinces of northern India. On the present occasion, a determined effort was made to lighten the burden of the cultivator. The imposts selected for remission were the cesses levied for the maintenance of village establishments and land records * These cesses were known by various names in different parts of the country, such as the "Patwari cess" in northern India and the "Ryotwary village service cess" in Madras, but they were all of a similar nature. They went to support services which represented an important state interest; they were administered by Government and not by any local authority; and their removal was a formal recognition of the fact that the liability of maintaining the services rested upon the State rather than upon the agricultural community. As a result of this measure, the revenues of Government sustained an annual loss of about 82 lakhs of rupees; of which 28 lakhs had previously accrued in Madras, 25½ lakhs in the United Provinces, 15½ lakhs in the Punjab, and 7¼ lakhs in the Central Provinces * It was at the same time decided to do away with the practice of making petty appropriations from the funds of district and local boards for various provincial objects, such as normal schools, district post, and the establishments employed in Government offices for local purposes.† The amounts involved totalled about 5¾ lakhs, and the abolition of the charges was in effect a subvention to the funds of the local bodies concerned. These two measures may be taken together as constituting a step of some importance in the direction of placing the system of local taxation upon a sound basis. The declared end at which Government now aim is to ensure that no local cesses, supplemental to land revenue, shall be levied upon land, except such as are imposed by or on behalf of local authorities for expenditure upon genuinely local objects; in other words, that local taxation on land shall, as far as possible, be limited to the requirements of local bodies and shall not form an asset of imperial or provincial revenues. During the two years 1905-06 and 1906-07, items amounting to 110½ lakhs‡ *per annum* were remitted or transferred to the local account, and it may be claimed that by these measures not only was considerable relief afforded to the tax-payers, but most of the important excrescences which had grown up round the system of local taxation were swept away.

Su plus of 1907-08. heavy remissions of taxation.

4. The estimated surplus of 1907-08 amounted to over £2¼ millions, and steps were taken in advance to reduce it. The only substantial addition made to provincial finances to meet administrative improvements was a further grant of 30½ lakhs of rupees in aid of police reforms|| This brought up to 105½ lakhs the total sum allotted for this purpose in the three years beginning with 1905-06. On the other hand, considerable reductions of taxation were effected. The salt duty was fixed at one rupee a maund with effect from the 1st March 1907, with a resulting loss of revenue amounting to Rs. 190 lakhs or £1¼ millions.§ A sacrifice of some Rs. 19 lakhs was involved by a lowering of postal rates introduced on the 1st October of the same year.¶ The beginning of the financial year also saw the remission of the fees which had previously been recovered from municipalities and certain other bodies for the audit of their accounts, as well as of those which had been paid by

* Page 11 of the Financial Statement for 1906-07.
† Pages 11-12 " " "
‡ Page 12 of the " " "
|| " 10 " " " 1907-08.
§ " 3 " " " "
¶ " 36 " " " " also Government of India despatch No. 47, dated the 4th July 1907. Secretary of State's telegram, dated the 14th August 1907.

local bodies in certain provinces for the privilege of banking at a Government treasury.* This step, which was estimated to cost about 6 lakhs of rupees, was taken in pursuance of the policy of freeing local funds from burdens which should properly be borne by provincial or imperial revenues. A similar reason governed the decision to discontinue from the same date the levy of contributions from district boards and municipalities in the Madras Presidency towards the cost of certain administrative provincial establishments.† The cost of this measure was a little over a lakh of rupees.

The same: effect of the reduction of the salt tax.

5. Of the remissions of taxation undertaken during the year, that connected with the duty on salt was by far the most important. The fall in price in which it was bound to result might not unreasonably be expected to lead to a considerable increase in consumption. That this expectation has not been entirely falsified will appear clearly from the following table, which exhibits concisely the effects of the successive reductions of salt-duty :—

Year.	Rate‡ of duty per maund.	Issues of salt (in lakhs of maunds).	Increase + Decrease as compared with the previous year.
	Rs. A. P.		
1898-99		355	+10
1899-00		352	—3
1900-01	2 8 0	362	+10
1901-02		360	—2
1902-03		369	+9
1903-04	2 0 0	376	+7
1904-05		394	+18
1905-06	1 8 0	407	+13
1906-07		431	+24
1907-08		444	+13
1908-09	1 0 0	454	+10
1909-10		458	+4

The effect of a reduction of the tax takes a certain time to filter down to the consumer, and the figures of individual years are liable to be affected by the fact that alterations in the duty do not exactly synchronise with the commencement of the official year. Allowing for these disturbing factors, the contrast between the progress of consumption in the first five years of the series and in the later period is sufficiently marked. In the five years beginning with 1898-99, issues increased by 24 lakhs of maunds. In the following period of five years, which saw three successive reductions of duty, the corresponding increase was 75 lakhs. The rate of growth fell off in 1909-10, but with the return of prosperous seasons more rapid expansion may be anticipated. The average incidence per head of the salt tax has now been

* Despatch to the Secretary of State, No. 208, dated the 13th June 1907. Despatch from the Secretary of State No. 129 (Finance), dated the 20th September 1907.
† Government of India (Finance) telegram No. 7594-A., dated the 19th December 1907.
‡ Except in Burma where the duty has been Re. 1 per maund throughout the period.

reduced to $2\frac{1}{2}$ annas, a figure far below that which is realised in most of the continental countries of Europe. This result has, of course, not been attained without considerable sacrifice of revenue. In 1902-03 the receipts from this source aggregated £6,184,400, whereas the budget of 1910-11 allows for salt revenue of £3,395,000 only. It is unlikely that the growth of consumption will ever be sufficient to make good this loss; but there can be little doubt that the sacrifice has been made in the true interests of the Government of India, while the remissions have supplied a valuable reserve of taxation to which the State can have recourse at any period of serious difficulty.

Budget estimates of 1908-09: check in the expansion of revenue.

6. If the rate of expansion of revenue which had obtained in previous years had continued into 1908-09, a surplus of some three crores of rupees might have been expected, and Government were fully prepared with schemes for its disposal. In pursuance of the accepted policy of easing the burden upon land, they had various important projects under consideration. They contemplated the abolition or reduction of district and local fund cesses, and their amalgamation with the land revenue demand; the transfer to district boards of the proceeds of the Public Works cess in the two provinces of Bengal; the remission of the various cesses, taxes and appropriations from which the cost of rural police was met in certain provinces; the abolition of the headmen's cesses and levies in northern India and of the Proprietary Estates Service cess in Madras; and the reduction by one-seventeenth of the land revenue demand in Sind, which includes a cess, calculated at $6\frac{1}{4}$ per cent. of the total demand, designed to defray the cost of maintaining village officers. At the same time, the desirability of increasing expenditure upon various branches of the public service had not escaped attention. Among other reforms, Government were anxious to undertake the relief of municipalities in the Punjab and elsewhere from police charges; the extension of technical education; the improvement of sanitation in municipalities and the grant to those bodies of subventions from which to combat plague and adopt general measures in the interests of the public health; and finally the introduction of free primary education. All these schemes were, however, doomed to indefinite postponement. When the time came to frame the budget of the year, the outlook was far from promising. The autumn rains had failed over a considerable tract of country, and Government were further faced with the prospect of a decline in opium revenue, due to the working of the agreement with China. Large projects for the remission of taxation and costly administrative reforms had therefore to be laid aside. The budget estimates for 1908-09, when allowance had been made for the loss of revenue and increase of expenditure which the famine was likely to occasion, shewed a surplus of Rs. 128 lakhs only. Out of this, 12 lakhs were allotted as a further grant in aid of police reforms* and 30 lakhs were distributed among the various provinces for expenditure upon sanitary improvements.* The latter question was one to which the Government of India attached great importance. Hitherto little organized effort had been made to advance sanitation, but the continued prevalence of plague, and the measures concerted to combat it, had forced the matter into prominence. Notwithstanding the pressing need for economy, the Government of India determined to give some tangible evidence of sympathy in the form of assistance from imperial funds. Each local Government was to be at liberty to

* Page 15 of the Financial Statement for 1908-09.

expend the money at its discretion and to attack the problem in whatever way it chose. Provision was also made for a small sum required to relieve municipalities in Eastern Bengal and Assam, Bengal and Bombay of certain petty police charges which they had formerly borne, the question of taking over the much larger expenditure in the Punjab and some other provinces being postponed for future consideration. After making allowance for all these items the budget estimates for 1908-09 closed with a working surplus of about £571,500.

Actual results of 1908-09: heavy deficit.

7. Even this modest expectation was, however, doomed to disappointment. The end of the decade of remarkable prosperity had arrived. The situation altered materially for the worse after the framing of the budget and, instead of a small surplus, the year 1908-09 closed with a large deficit. The conditions of agriculture and of trade both contributed to this result. The agricultural outlook had from the first been poor, and did not tend to improve as the year went on. The area under spring crops was small; the winter rains, though good, were late; and the outturn in the majority of the affected provinces did not exceed two-thirds of the normal harvest. Famine conditions were established in the United Provinces and the neighbouring States of Central India; while relief measures on a smaller scale became necessary in parts of the Central Provinces, Bombay and Bengal, and to some extent in Madras and the Punjab also. The situation was further complicated in northern India by the outbreak of a severe type of malarial fever, which not only caused considerable mortality in certain tracts, but also, by debilitating cultivators everywhere, hampered alike the harvesting of the autumn and the sowing of the spring crops. To these difficulties of the agricultural situation were added the effects of a great depression in trade, common throughout the civilised world and felt in full force by India. As a result of this combination of adverse circumstances, the revenue of the year fell by £3,677,400 below the budget figure. The deficit would have been still greater, had it not been for an increase of £1,041,900 under opium, due to prepayments of duty by merchants who were anxious to secure a share in the now limited exports of the Malwa drug. With this one exception, revenue fell off under all the principal heads. The most serious effect was seen, as might be expected, in the case of railways, which reaped the fruit of both agricultural and commercial depression. Their net earnings were worse than the budget estimate by no less than £3,771,500, a sum more than sufficient to account for the entire deficit of the year.

Events of 1909-10: opium windfall.

8. In view of the situation prevailing at the end of 1908-09, there could be little expectation of a substantial surplus in the following year. Measures for the further remission of taxation and the alienation of revenue to local bodies could not be seriously considered, and it is to be feared that some years must elapse before they can be taken in hand on any extensive scale. In framing the budget for 1909-10, Government were confronted with serious difficulty. With the restoration of normal agricultural conditions and the probability of a trade revival, they might expect a recovery of revenue; but its return to the dimensions which it had reached before the crisis could hardly be rapid, and this was particularly the case with railway and customs receipts. As there was also reason to anticipate a decline of opium revenue, it was clearly the duty of Government to enforce economy of expenditure. In the closing months of the preceding year the outlay on various important services had been reduced fully as low as was consistent with safety; but in

the new budget it was found possible to adhere very closely to the standard then set, and the expenditure estimates shewed a total exceeding by less than £200,000, the revised figures of 1908-09. The budget provided for a surplus of £230,900, but the event turned out better than had been anticipated. While the recovery of revenue under the majority of heads of account proved disappointingly slow, the receipts from opium saved the situation. An unexpected rise in the price of the Bengal drug from November onward, coupled with heavy advance payments of duty on Malwa exports, brought in a profit which exceeded the estimate by over a million pounds sterling. Advantage was taken of the windfall to restore the depleted balances of the Central Provinces and the two provinces of Bengal, to complete a promised grant in aid of the Rangoon river-training scheme, and to meet certain other non-recurring liabilities.* With the assistance of considerable lapses of funds provided for military expenditure and a belated revival of customs revenue, the year finally closed with a surplus of slightly over £500,000.

Budget for 1910 11: new taxation

9. When the budget for 1910-11 was considered, the dominating factor was the future of opium revenue. The reduction of exports entailed by the agreement with China was proceeding The chests of Bengal opium offered at the auctions would be less in number by 4,740 than the sales of the previous year; and, assuming that they fetched an average price of Rs. 1,750 per chest, the decline in revenue from this source would amount to £160,000. Still more serious was the position in relation to the Malwa drug. The entire duty on exports permissible up to December 1911 had been paid in the course of 1909-10, and the arrangements to which Government had since come would prevent the accrual of any revenue from this source in the year 1910-11. This meant a further decrease of receipts under opium, as compared with the preceding year, by no less than £718,000. In addition to these losses, it was necessary to take into consideration the effect of the revised Provincial Settlement with Eastern Bengal and Assam, which entailed a recurring diminution of Imperial revenues by £255,000. Government had thus to meet a decrease of income in the ensuing year by more than £1,100,000. A careful and detailed examination of the circumstances revealed the fact that the embarrassment occasioned by these and other causes was not of a merely temporary nature, and that it was advisable permanently to broaden the basis of taxation. Government had therefore to face the necessity of imposing new burdens on the people. Various alternative proposals for an increase of taxation were considered, and the Secretary of State ultimately agreed† to accept an enhancement of the customs duties on alcohol, silver, petroleum and tobacco, together with some slight addition to the stamp-duties on certain instruments, and to the excise on intoxicating liquors manufactured in India after European methods. The new taxes were expected to produce 169 lakhs of rupees in the year of introduction, and to enable the accounts to close with a surplus of 56 lakhs.

Results of the first six months of the year.

10. Once again the yield of opium revenue falsified all calculations. The high prices fetched by the drug in China as its imports diminished led to a violent outbreak of speculation; and the first sales of Bengal opium in the year produced bids averaging Rs. 3,827 *per* chest, as against the budget figure of Rs. 1,750. In later months the attempts of the Chinese authorities

* Page 4 of the Financial Statement for 1910-11.
† Telegram from the Secretary of State, dated the 1st and the 3rd February 1910.

to annex a share of the profits of the trade led to a fall in rates; but the sales continued to realise prices much in excess of the original estimate, and up to the end of October 1910 the receipts from opium were over two crores in excess of the proportionate budget figure. At the same time, the prospects of other revenue were good. The monsoon of 1910 was almost universally favourable, and there were signs that the revival of trade which occurred over a great part of the world was not to leave India untouched. Speculation in silver led to heavy imports of that metal into the country, and by the end of September the yield of the new customs duties had attained to two-thirds of the total amount which had been expected during the year. Even without the opium windfall, there was every sign that 1910-11 would close with a substantial surplus.

General statement of revenue and expenditure for the years 1905-06 to 1910-11.

11. A statement is appended, shewing the revenue and expenditure for each of the years of Lord Minto's term of office, including the budget estimates for 1910-11, arranged in the method explained in Chapter VI of the summary of Lord Curzon's administration. The figures have been recast throughout with reference to the changes in the form and system of accounts sanctioned during 1906-07 and 1907-08, which have been described in detail in Chapter III of this summary. Most of the figures of 1907-08 and 1908-09 are affected by the famine, and the vicissitudes of the period make it unprofitable to examine minutely the growth of revenue and expenditure under the various heads. Certain points are, however, worthy of notice, and the most important of these are detailed below:—

(*i*) the fall in salt revenue in 1907-08, due to the reduction in duty mentioned in paragraph 4;

(*ii*) the fall in provincial rates, in 1906-07, due to the remission of taxation mentioned in paragraph 3;

(*iii*) the decrease in the growth of the net receipts from railways, due partly to famine and depression in trade and partly to a great increase in the working expenses. The factors which have contributed to this increase are the rise in the cost of labour and in the price of coal, and the pressing demand for more rapid transport facilities and conveniences to the travelling public;

(*iv*) the large increase in police expenditure, chiefly due to progress of reorganisation on the lines recommended by the Police Commission;

(*v*) the reduction of the grant for reorganisation expenditure under Military Services to £1,666,700 in the budget and to £1,263,300 in the revised estimates for 1908-09. The grants allotted for this purpose and the actual expenditure upon it in the three previous years had been as follows:—

	Budget.	Revised.
	£	£
1905-1906	3,266,600	2,026,200
1906-1907	2,766,600	2,389,300
1907-1908	1,983,400	1,514,900

With effect from 1909-10 this special grant has been abolished, and the recurring cost of completed measures for which funds have hitherto been provided from that grant has been merged

in ordinary expenditure. In future the classification of measures as 'ordinary' or 'special' will depend solely on their cost. Expenditure on new projects of which the initial cost *plus* one year's recurring expenditure, is estimated to exceed Rs 50,000 will be treated as 'special,' and all other expenditure will be classed as 'ordinary.'

REVENUE HEADS.	NET RECEIPTS.					
	1905-6. (Accounts)	1906-7. (Accounts)	1907-8. (Accounts)	1908-9 (Accounts)	1909-10 (Revised.)	1910-11. (Budget)
	£	£	£	£	£	£
Land revenue (excluding that due to Irrigation)	14,805,955	15,712,910	14,481,252	15,351,106	16,878 900	16,631,200
Opium	3,572,944	3,743,773	3,571,948	4,645,113	4 232 600	3,550,100
Salt	3,746,773	3,730,684	2,708,894	2,665,596	2,712 400	2,770,100
Stamps	3,748,162	3,799,440	4,073,085	4,119,917	4 357 600	4,588,700
Excise	5,362,943	5,560,853	5,867,017	5,923,228	6 059,400	6,328,800
Provincial rates	945,441	510,366	520,019	528,592	540 200	535,600
Customs	4,075,907	4,032,315	4,689,293	4,516,060	4 5[illegible]3 000	5,686,400
Assessed taxes	1,292,160	1,392,499	1,471,276	1,519,008	1,528 500	1,584,400
Forests	820,306	814,761	747,361	697,706	6[illegible]0,000	669,900
Registration	173,522	179,460	200,404	198,166	197 300	201,700
Tributes	396,867	400,756	389,366	387,556	3[illegible]6,900	395,200
					£	
TOTAL REVENUE	38,940,980	39,877,817	38,719,915	40,552,048	42,176,800	42,942,100

EXPENDITURE HEADS.		NET CHARGES.					
		1905-6 (Accounts)	1906-7 (Accounts)	1907-8. (Accounts)	1908-9. (Accounts).	1909-10. (Revised)	1910-11. (Budget)
		£	£	£	£	£	£
Debt services	Interest	474,298	943,691	855,087	979,507	916,900	1,027,600
Commercial services	Post Office	—109,964	—148,213	—51,279	71,133	22,300	—26,200
	Telegraph	166,635	173,199	77,650	49,976	107,500	140,400
	Railways	—1,993,826	—2,307,673	—1,563,002	1,242,250	—828,500	—562,200
	Irrigation	—125,995	—796,156	—646,475	—608,823	—590,600	—493,600
Other Public Works	Civil Works, &c.	3.944.127	4,071,689	4,436 577	4,208,404	3,891,[illegible]00	4,257,200
Mint	Mint	—201.104	—252,600	—279,017	89,475	23,700	—5[illegible],800
Civil Department	General Administration.	1,510,891	1,524,835	1,622,[illegible]43	1,694,833	1,664,700	1,744,500
	Courts of Law	2,134,211	2,269,073	2,328,365	2,473,470	2,473,3[illegible]0	2,532,100
	Jails	540,170	591,386	6 2,363	686,762	645,900	647,400
	Police	2,891,884	3,384,395	3,659,703	4,[illegible]38,[illegible]99	4,[illegible]94,400	4,265,700
	Ports and Pilotage	12,275	17,048	35,929	112,110	28,000	41,300
	Education	1,087,415	1,207,594	1,343,807	1,523,9 5	1,542,900	1,728,600
	Ecclesiastical	121,371	125,906	123,546	12[illegible],[illegible]82	124,700	126,9 0
	Medical	693,061	760,742	804,134	961,163	965,200	1,071,700
	Political	943,434	1,060,033	796,155	1,007,512	858,200	913,400
	Scientific and Minor Departments	538,781	604,517	683,504	724,768	741,600	828,600
Miscellaneous civil service	Superannuation	2,713,796	2,755,872	2,787,825	2,863,223	2,912,800	2,972,200
	Exchange	—82,870	—190,022	—94,511	34,437	—42,900	
	Miscellaneous	182,933	—42,424	145,563	135,953		
	Other Heads	1,029,426	1,044,222	1,222,571	1,300,695	71,500	3,800
Famine Relief and Insurance	Famine relief	136,817	317,458	622,262	992,079	1,289 700	1,313,2[illegible]0
	Other Heads	863,113	692,285	673,801	653,100	66 500	
Military Services	Effective			14,628,955	15,266,362	933,500	1,000,000
	Army non-effective			2,996,099	3,047,965	15 045,300	15,394,300
	Marine	19,676,639	20,169,343	397,338	351,509	3,041,100	3,084,800
	Military Works			1,109,675	908,108	383,400	4 9,6[illegible]0
	Special Defence			116,287	29,044	783,800	8[illegible]6,300
						36,700	1,5[illegible]0
TOTAL EXPENDITURE		37,065,648	37,976,200	39,435,055	44,[illegible]57,101	41,203 500	43,188,300
Provincial Surplus or Deficit		—216,896	312,242	—1,021,186	—667,343	683,500	—622,2[illegible]0
		36,848,752	38,288,442	38,413,869	44,289,758	41,887,000	42,566,100
Imperial Surplus or Deficit		2,092,228	1,589,375	306,046	—3,737,710	289 800	376,000

CHAPTER V.

PROVINCIAL FINANCE.

The system of quasi-permanent settlement.

The circumstances regarding the introduction of the system of *quasi*-permanent provincial settlements with the major provincial administrations are fully explained at pages 74—77 of the summary of Lord Curzon's administration. During the period therein reviewed *quasi*-permanent provincial settlements were given to Bengal, Madras, Bombay, the United Provinces, the Punjab and Assam.

Reconsideration of the settlement with the Central Provinces

The terms of a similar settlement with the amalgamated administration of the Central Provinces* and Berar were also arranged towards the end of Lord Curzon's tenure of office, but the official orders were not issued till the beginning of Lord Minto's administration. The new settlement came into force from April 1st, 1906, an initial grant of 30 lakhs being made to provincial revenues, in order to start the new arrangement on a favourable basis.

Revision of quasi-permanent settlement with Bengal and Eastern Bengal and Assam.

2. In consequence of the constitution of the new province of Eastern Bengal and Assam, the terms of the previous settlement with Bengal† were revised, the contract with Assam was terminated, and a new settlement made with the Government† of Eastern Bengal and Assam. The fresh arrangements took effect from the 1st April 1906, the Government of Eastern Bengal and Assam receiving a lump grant of 30 lakhs in addition to the initial grant of 20 lakhs made to Assam in 1903-04. Owing to the difficulty of forecasting the growing requirements of the new province, the settlement was originally concluded for a period of three years only, and this term was subsequently extended by twelve months. A revision has since been completed, and has received the sanction of the Secretary of State.‡ No important alteration has been made in the method of distribution of revenue and expenditure between the imperial and provincial Governments, but the growth of provincial charges has been met by an increase in the fixed assignment A feature of the contract is the absence of an initial grant. The overdraft on imperial balances was, however, wiped out by means of a special assignment at the end of 1909-10.

Extension of system to Burma.

3. In 1907 the system of *quasi*-permanent settlement was extended to Burma. In view of the facts that the province was comparatively a young one, and that the expansion of revenue in recent years had been both great and rapid, the Government of India found itself obliged§ to stipulate that, if the expansion of revenue continued at the same rate as in the preceding years, it would be necessary in the interests of imperial revenues to revise the rates now agreed upon. The settlement made was liberal and the Government of India were able in this case to give effect to the principle (to which recent provincial settlements had consistently tended) of an equal division of the divided heads. The guarantee given in the case of Bombay and the Central Provinces against the decline in the yield of land revenue below a fixed amount was not repeated in this case, but the settlement was started with a provision of 50 lakhs in favour of the local Government. Owing to a variety of causes, a check occurred in the

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* Government of India letters (Financial), No. 6684 A, dated the 4th December 1905, and No. 1236-A, dated the 25th February 1906.

† Government of India letters Nos. 618 A (Financial), dated the 2nd February 1906, and 617-A., dated the 2nd February 1906.

‡ Secretary of State's Despatch No. 49 (Financial), dated the 22nd April 1910.

§ Government of India letter No. 7244 A. (Financial), dated the 31st December 1906.

expansion of provincial revenues in the first year after the conclusion of the contract The growth of receipts has since failed to keep pace with the normal increase of expenditure, and the local Government has been driven to exercise very considerable economy. The set-back cannot, however, be considered to be anything but purely temporary, and the province may be expected to find itself, within a very few years, in a more comfortable financial position

Revision of quasi-*permanent settlements with United Provinces and Madras.*

4 In 1907-08 it was decided to revise the existing settlements with the United Provinces* and Madras † These provinces were two of the first to come under the scheme of *quasi*-permanent settlements, and accordingly did not share in the improvements which were introduced into the settlements effected at a later date with other provinces; they had received an inadequate share (one-fourth only in the case of several of the principal heads) of growing revenues; and their fixed assignments had become disproportionate to the rest of their revenues. The growth in the last four years of the grants from imperial revenues in compensation for remitted taxes, in aid of district boards, for the furtherance of education and the like, had left the two provinces with an unduly high proportion of their resources fixed as a cash allotment, so that these did not progress *pari passu* with the needs of the provincial administration. Revised settlements have therefore been concluded with both provinces In these settlements the provincial shares of most of the major heads of revenue and expenditure have been fixed at one-half, but in the United Provinces, where land revenue is exceptionally large in amount and is also exceptionally exposed to climatic vicissitudes, three-eighths only of this source of revenue have been assigned to the province. In the case of Madras,‡ which possessed ample balances, the Government of India did not consider an initial grant in connection with the revision of the settlement to be necessary, but gave the province a guarantee against the decline of land revenue below a figure of Rs. 308 lakhs. The United Provinces received a similar guarantee to the amount of Rs. 240 lakhs, as well as an initial grant of Rs. 10 lakhs. The revised settlement with Madras was introduced with effect from the 1st April 1908 § That with the United Provinces was provisionally in force in 1908-09, and has been made permanent with effect from the 1st April 1909 ‖

Quasi-*provincial settlements with Baluchistan and the North-West Frontier Province.*

5. A new *quasi*-provincial settlement was concluded with Baluchistan on somewhat modified principles. The previous arrangement had practically broken down, owing to the disproportion between growing revenues and growing heads of expenditure. At the same time, it was clear that a settlement in which the heads of revenue and expenditure were shared or provincialized in the same manner as in other provinces would not be efficient in this case, as the fixed assignment required to equate revenue and expenditure would exceed the growing revenues. The remedy for this difficulty was to modify the distribution of revenue and expenditure, and the Government of India accordingly decided¶ that, while the whole of the revenue hitherto treated as *quasi*-provincial should be included in the provincial assignment, the provincial responsibility for expenditure heads should

* A Accounts, December 1907, Nos. 769-70.
† A Accounts, February 1908, Nos. 83-87.
‡ Government of India letter No. 165-A., dated the 10th January 1908.
§ Secretary of State's Despatch No. 55 (Financial), dated the 1st May 1908.
‖ Government of India letter no. 1285-A., dated the 10th March 1909.
¶ Government of India No. 3365 F. of 14th December 1907.

be limited to one-half. The result was to reduce the proportion borne by the fixed assignment to growing revenues to little more than one-third. It was anticipated that with this modification it would be possible for increases of expenditure to be met from the growth of revenue in the usual way. The province was given a guarantee against the decline of land revenue below 8 lakhs. The new arrangement came into force from 1st April 1908, and was sanctioned for a period of five years. The terms of a *quasi*-provincial settlement with the North-West Frontier Province are now under discussion.

Examination of existing settlement contracts.

6. During the Simla season of 1910, Lord Minto's Government passed the whole of the existing contracts under careful review. The objects of the inquiry were to ascertain how far the settlements were adequate to meet the needs of the various provinces and, in particular, to gauge the extent to which the expansion of provincial expenditure was hampered by the existence of unduly large fixed assignments. The results of the investigation were still under consideration at the close of the period.

New procedure for dealing with provincial budget estimate.

7. In connection with the budget of 1908-09, the Government of India decided to make an important alteration in the method of dealing with the provincial Budget Estimates, in order to secure closer correspondence between estimates and acccounts. The existing procedure did not sufficiently secure this object. In considering the provincial budgets it has always been the practice of the Government of India to make deductions where advisable from provincial heads of expenditure, not with a view to restricting the local Governments in the disposal of their funds, but to prevent them from making larger budget provision in any case than is likely to be actually expended within the year. The reductions thus made had subsequently to be distributed by the local Government among the minor and sub-heads subordinate to the major head; accordingly the Government of India's corrections operated towards reducing the allotments placed at the disposal of disbursing officers, whose anxiety to close the year with a margin of saving over their grants resulted in the actual expenditure falling much below the figure of the budget estimate passed by the Government of India. It was decided therefore to adopt in future the following procedure. The estimate framed by the local Government under each major head will be examined in the Finance Department in the usual way, any specific items of expenditure which are doubtful or inadmissible being modified or eliminated as the case may require. From the total provision thus arrived at a lump deduction will be made, if this should appear necessary with regard to the circumstances of the year and the experience of previous years, in order to reduce the major head total as nearly as possible to the amount of the probable actual expenditure. The reduced total will form the sanctioned estimate under the major head, but the local Government will be competent to make allotments to disbursing officers up to the limit of the unreduced grant. Thus the lump deductions will not operate to curtail expenditure which has been duly approved, and for which provision has been made in the unreduced grant. On the contrary the unreduced grant may be shown in the detailed Civil Estimates divided among the disbursing officers, exactly as if it were the sanctioned budget total of the major head. In these estimates the lump deduction will be shown below the head as "probable savings." The accounts officer will recognise the allotments as distributed and will conduct his audit against them, so long as the aggregate does not exceed that of the unreduced grant. But he will watch the progress of expenditure, and when it threatens to exceed the amount of the reduced

grant under any one major head, he will warn the local Government. It will then devolve on the latter to curtail expenditure under that head or provide for it by re-appropriation.*

Further changes, consequent upon the constitutional reforms.

8. In connection with the constitutional reforms introduced by Lord Minto's Government at the end of 1909, changes were made in the procedure for preparing provincial budgets, with the object of giving the local Legislative Councils a greater measure of control over their own financial affairs. The provincial budgets are now divided into two parts, the second of which deals with purely imperial major heads and the first with provincial and divided heads of revenue and expenditure. These two parts are submitted separately to the Government of India; Part II, which contains the imperial figures, being despatched at a later date than Part I. A novel feature of Part I is that it now contains provision for an "unallotted grant" of considerable dimensions. After the first edition of the estimates has been sent to the Government of India, the distribution of this grant is discussed by a financial committee of the provincial Council, and its funds are allotted to various services. The first edition of the estimates is treated by the Government of India in the manner described in the last paragraph; particular care being taken to avoid petty corrections of the figures. Changes enjoined as a consequence of this examination are incorporated by the local Government in the second edition, which shews also the amount of the unallotted grant distributed among the various heads of expenditure. On receipt of final orders on this edition, revised Financial Statements are presented to the Legislative Councils of the provinces. In discussing these, the provincial authorities are at liberty to make changes and re-appropriations within the total grant for provincial and divided heads, but any increase of expenditure or diminution of revenue on which they may decide must be counterbalanced by a corresponding alteration on the other side of the account. The new procedure was followed in the preparation of the budget estimates for the year 1910-11. In certain minor details it did not work with quite as much smoothness as was desirable, and proposals for removing these petty difficulties are now under consideration.

* Government of India Resolution (Finance) No. 358-A, dated the 18th January 1908.

CHAPTER VI.

General Opium and Excise Policy.

A.—OPIUM.

General history of the negotiations with China; events previous to 1900.

The great importance assumed by the questions relating to the export of opium to China during this period warrants a detailed statement of the steps which led up to the negotiations between the Chinese and Home Governments in 1906. Those negotiations had for their avowed purpose the gradual extinction of the direct Indian export of opium to China and involved as a consequence the total loss to Indian revenues of the income derived from the China trade. It was only at a somewhat late stage in the history of the case that Chinese policy in the matter assumed a definite shape. The earlier stages of the negotiations are concerned with attempts, which were of a type with which the Indian Government had already become familiar, to impose various indirect charges on foreign opium in aid of the Imperial Chinese finances. When the Royal Opium Commission reported in 1893, the treaty arrangements provided that British merchants could import opium on payment of a duty of 30 *Haekwan taels* for 100 *cattis*; that opium so imported should remain in bond until that duty was paid with the addition of a *likin* not exceeding 80 *taels* per 100 *cattis*; and that these payments should frank the opium to the place of consumption, where no further tax should be levied than is payable on native opium, the amount paid as *likin* being calculated off the value. This position was maintained practically intact in the revised commercial treaty which was negotiated by Sir James Mackay in 1902. In spite of the fact that attempts were from time to time made to increase the impost by various indirect means—attempts which were the subject of frequent diplomatic protests on the part of the British Minister at Pekin—it may be said that till the year 1900 the treaty engagements had on the whole worked satisfactorily for both parties concerned. They had ensured for Indian opium exemption from harassing transit dues, and they had on the other hand enabled the Chinese Government to collect their revenue without difficulty and to prevent frauds by the provincial Governments and private smugglers.

Events following the war of 1900-02.

2. The expense of the war of 1900-1902, however, and the necessity of financing the large indemnity of £65 millions which was one of its results, again turned the attention of the Chinese imperial authorities to the possibility of raising additional revenue from imported opium. These deliberations first bore fruit in a scheme, propounded in March 1901, which had for its object the creation of an 'opium monopoly' in China for the payment of the war indemnity. It was clear that this monopoly would tend to check importation of Indian opium, since encouragement would inevitably be given to Chinese produce to the detriment of the imported article. Nevertheless, the Indian Government did not deem it politic to oppose the proposal *in toto*, but contented itself with recommending that any consent given to the scheme should be conditional on the observance of the principles underlying the existing treaty provisions. No special taxes or dues should be levied on the imported article which would give preference or advantage to native produce; and no dues, either direct or indirect, should be levied exceeding in amount the present impost of 110 *taels* per chest.* The scheme was not

* Telegram to Secretary of State, dated the 18th April 1901.

carried further in its original shape, but it was rapidly followed by a number of other proposals differing somewhat in form, but obviously directed to the same end and inspired by the same spirit. In December 1901 a scheme was discussed for the establishment of an opium monopoly in Fukien and other provinces. In March 1902 it was reported that funds for palace purposes were to be provided by the levy at Canton of what was called a "prepared opium tax", but incorrectly so called, because the tax was in reality to be imposed on opium still in the packages sealed by the Customs. The tax was consequently opposed by the British Minister and was abandoned. In 1902 an abortive attempt was made to grant the monopoly of retailing opium throughout China to a German firm in return for an annual subsidy of 10,000,000 *taels.* In 1903 a second, and equally unsuccessful attempt was made to impose the Canton tax on "prepared opium." In 1904 the Indian Government were advised by Sir Robert Hart that the Chinese officials were preparing a scheme for dealing with both native and foreign opium. A farm was to be established and the farmer was to pay a fixed price for a given period for a fixed number of chests of Indian opium to be purchased by him. The Home Government were informed that the Government of India would not object to the arrangement provided that the Chinese Government itself guaranteed to purchase from the Government of India a fixed number of chests of Bengal opium at a scale of prices to be agreed upon, and to pay duty at the rate in force on a minimum number of chests of Malwa opium, and that the conditions suggested in 1901 to secure the impartial administration of the monopoly and to protect Indian opium from differential treatment were duly observed. The proposal had apparently been based on an offer of the Hongkong and Shanghai Bank to lend a large sum of money on the security of the monopoly, and with the withdrawal of this offer the idea fell to the ground.

3. Somewhat later in the same year, however, the authorities at Canton revived the scheme for the levy of a tax on prepared opium, and on this occasion the representations of the British Minister—which went to the length of threatening the abrogation of the existing Treaty enactments—were attended by less success than they had previously secured. The Canton authorities showed a disposition to persist in the tax, and in July of the same year the Chinese Minister in London put forward formal proposals to raise the duty of 110 *taels per* picul leviable on Indian opium in China to 220 *taels.* It was urged in support of this measure that, when the original convention was concluded, the consolidated duty of 110 *taels per* picul was equivalent to 27½ *per cent.* of the value of opium, but that subsequently, owing to the depreciation of silver and the enhanced *tael* value of opium, the incidence of the duty amounted to no more than 13¾ *per cent.* of the drug. In default of any proof that provision had been made for a corresponding increase of taxation on Chinese opium this scheme, like its predecessors, was opposed by the British Foreign Office. At the same time His Majesty's Government informed the Chinese Minister that any proposal which aimed at increasing the revenue and restricting the consumption of opium would command the support of the British Government, provided that equality of treatment was extended to native grown opium, and that an impartial administration of the regulations was guaranteed.

4. It is here important to note that while the schemes mentioned above had been under discussion the Chinese authorities had been taking

independent action towards raising the taxation on native opium and improving the system under which it was collected. By a variety of enactments—and in particular by the application of the system of *kao chuan* or payment in advance—the authorities had forced up the local taxation on native grown opium and had secured some measure of control over inter-provincial imports. In 1906 it was reported that all opium exported from the principal opium producing provinces was paying an enhanced consolidated tax, known as " tungshui ", of 115 *Kuping taels* (=114 *Haekwan taels*) *per* picul; that the methods of collection had been entirely reorganised, and that a very fair proportion of the proceeds was finding its way into the Imperial treasury, the provinces being allotted a fixed percentage only of the gross receipts.

Growth of the anti-opium movement in China; the decree of September 1906; and proposals of 1907.

5. At this stage in the history of the case a new factor comes persistently to the front. A powerful section of the Chinese official world had adopted what may be described as the anti-opium programme; and whatever motives may have been present in the minds of the supporters of that programme, the policy of restricting both the import and production of opium was henceforth consistently put forward by the Chinese Foreign Office as the reason for renewing its demands for a revision of the existing arrangements regarding Indian opium. This attitude was one which in great measure precluded opposition. The circumstances which might be held to warrant the Home and Indian Governments in opposing an alteration in existing treaty arrangements on the subject of opium had been well defined in Sir J. B. Lyall's note* contained in the Report of the Royal Opium Commission. The position there assumed was :—

(*a*) That we should leave the Chinese Government entirely free to deal as they liked with the question of import of foreign opium, provided that if they wanted to alter or annul the existing treaty provisions they consulted us in the usual way and heard what advice we had to offer.

(*b*) That no pressure of any kind should be employed to prevent the Chinese Government from disregarding our advice and doing what they wished, provided that they appeared to be acting with a serious intention of checking the opium smoking habit.

(*c*) That if, however, it appeared that they were acting merely to transfer to themselves the revenue from Indian opium which we now derive, we might fairly oppose their proposals so far as peaceful diplomatic means allow.

The position thus defined had been more than once re-affirmed by the British Government, and accordingly when on 20th September 1906 the Chinese Imperial Court issued a drastic decree commanding that the consumption of opium in China should cease within 10 years, the Secretary of State directed the British Minister at Pekin to inform the Chinese Government that any specific proposals in regard to the taxation of Indian opium would be considered in a sympathetic spirit, if the proposed regulation did not discriminate unfairly against foreign opium.† In reply, the Chinese Government put forward a definite scheme, of which the principal items were as follows :—

(*i*) Taking as the basis of calculation the average import of Indian opium into China during the five years 1901-05, the Chinese Government should take steps to diminish future imports by one-tenth in each year after 1907. This measure should be

* Report, Volume VII, page 28.
† Letter from Revenue Secretary, India Office, No. 3213, dated the 1st December 1906.

accompanied by a similar decrease in the production of the native drug.

(*ii*) The duty and *likin* on foreign opium should be raised from 110 to 220 *taels per* picul.

(*iii*) A Chinese official should be stationed in Calcutta to watch the auction sales and packing of opium.

Views of the Government of India on the Chinese proposals general need for caution.

6. In a despatch which they sent to the Secretary of State in February 1907,* the Government of India discussed this scheme. It was obviously inexpedient to use any argument that would imply suspicion of the good faith of the Chinese Government. But the proposals, however fully the sincerity of the motives underlying them were admitted, appeared to be open to criticism in more than one respect. The financial, economic and political interests at stake were of great magnitude. The net revenue derived from the export of Indian opium was over £3 millions a year. The annual payments to cultivators of the poppy in Bengal aggregated about $2\frac{3}{4}$ crores, and when Malwa was included the total loss to agriculturists from the extinction of the opium crop could not be placed at less than $3\frac{1}{2}$ crores a year. It had also to be remembered that it was upon the cultivation of the poppy that the prosperity of a number of native states mainly depended. Finally, the annual value of the export trade in the drug was little under ten crores of rupees, and its disappearance was likely to produce a serious effect upon the balance of trade and consequently upon the success of Indian currency policy. In view of the importance of the interests involved, the Government of India considered it desirable to lay stress upon the need for caution in the matter. They urged, in the first place, that any steps taken must of necessity be gradual. Secondly, there should be satisfactory evidence that the Chinese Government possessed not only the will but the power to enforce a policy of restriction in respect of the home-grown drug. Opium consumers in China were said to number 100 million persons, and the poppy was a staple crop throughout large tracts of country, the majority of which were situated at a distance from the capital. The central Government was notoriously far from strong and, even with the loyal assistance of the provincial administrations, it was unlikely that it would succeed in stamping out consumption in these large and distant areas within a period of ten years. Finally, the attitude of the provincial governments was itself a doubtful factor. They derived a revenue of five millions sterling from Chinese opium, as against $1\frac{3}{4}$ millions realised by the central authorities, and they might not unnaturally be expected to resent a proposal to deprive their treasuries of this source of income.

The same comments on the specific proposals.

7. While, however, there were many doubtful features in the scheme as actually put forward, the Government of India were fully prepared to co-operate cordially with the Chinese Government in forwarding the general objects of its new policy. They disliked the idea of limiting imports into China, but were ready to adopt vigorous action in the direction of diminishing exports from India. They had already taken steps to reduce the monthly sales of Bengal opium from 4,400 to 4,000† chests with effect from July 1907, and had arranged to restrict the area of cultivation in the Bengal Agencies to 950,000‡ bighas in 1907-08. In order still further to assist China in her task of discouraging the use of the drug, they now proposed the reduction of

* Despatch to the Secretary of State, No. 64 (Financial), dated the 21st February 1907.
† Notification No 1143 A., dated the 22nd February 1907.
‡ Letter No. 5125 Exc., dated the 11th September 1906

the Bengal area to 900,000* bighas in 1908-09 and of the Malwa exports of the same year from 14,125 to 12,000 chests. They were inclined to think that this was as far as it was safe to go in the immediate present. Further action should, they considered, be suspended until China could give satisfactory evidence of success in the prosecution of her new policy. Of the minor items of the Chinese scheme, the Government of India had no objection to the location of a Chinese agent in Calcutta, on the understanding that he should have no power of interference with either sales or exports. They felt bound, however, to protest strongly against the proposal to double the consolidated customs duty and *likin* on foreign opium. They pointed out that this part of the scheme was inconsistent with the object of the programme. It would not in any way restrict the imports of foreign opium. So far as the Bengal drug was concerned, the number of chests exported from Calcutta would remain unchanged. All that would result from increased taxation would be a fall in auction prices, entailing a large transfer of revenue from the Indian to the Chinese exchequer. In the case of Malwa opium, if the trade were not to be killed outright, it would be necessary to make an equivalent reduction of the pass duty, which would involve a further gain of some forty lakhs by China at the expense of India. Nor was it the fact, as urged by the Chinese Government, that Indian opium was taxed less heavily than the Chinese drug. Taking into account the export duty paid by the former in this country, the aggregate taxation levied upon it was actually three or four times as great as that which was imposed upon the product of Chinese poppy-fields; even assuming that the latter was both general and effective. In concluding their despatch, Lord Minto's Government put forward a final consideration of some importance. If the financial and economic interests of India were to suffer owing to the adoption of an anti-opium policy under instruction from the Home Government, India would have a case for compensation from English revenues. It would be especially imperative to press that view of the matter if the new programme led to any sudden dislocation of Indian finances or imposed on the country burdens which could not be met without an increase of taxation.

Conclusion of the agreement with China.

8. In the course of the negotiations between the Home and the Chinese Governments which followed the receipt of this despatch, it appeared that the Chinese authorities were willing to abandon their original scheme of limiting imports in exchange for a regulation of exports from this country by the Government of India. The idea of posting a Chinese official in Calcutta was dropped. As regards the increase of the consolidated duty, the Chinese Minister was informed by the Secretary of State that he would be prepared to discuss the proposal from the point of view that native should be subjected to as heavy taxation as foreign opium; but that information was in the first place required shewing definitely (*a*) whether the taxation hitherto imposed in China upon native opium had been doubled or largely increased, (*b*) whether this new taxation was effectively levied upon all Chinese opium, and (*c*) what was the actual relative value of the Indian and the Chinese drug. An agreement was finally concluded† upon the following lines. The Government of India were to make a yearly reduction by one-tenth of the exports of Indian opium to China. The method adopted was to deduct from

* Letter No. 1156-A., dated the 23rd February 1907.

† Despatch from Secretary of State, No. 15 (Rev.), dated the 14th February 1908.
Despatch to Secretary of State, No. 144, dated the 14th May 1908.

the total exports the average number of chests intended for countries other than China, and to reduce the remainder by one-tenth every year. The agreement was to be limited to three years in the first instance, and the arrangement involved the restriction of the total export of Indian opium of all kinds to countries beyond the seas to 61,900 chests in 1908, 56,800 in 1909 and 51,700 in 1910 The Chinese Government was simultaneously to take steps to diminish the import of Turkish, Persian and other foreign opium. The continuance of the reduction of export after the expiry of the three years' term was to be contingent upon the success of the reform movement in China. If that country could shew, at the end of the period, a proportionate reduction in its own cultivation and consumption and a successful limitation of the import of other varieties of foreign opium, the Government of India would be ready to continue the progressive diminution of export The question of an increase of the consolidated duty was left open for the present. The future of the problem lay therefore largely in the hands of the Chinese Government. The ultimate result would depend on the strength of the influence wielded by the reforming party and on the loyalty of the co-operation which the Throne could secure from its provincial officials. The central government at once proceeded to issue vigorous orders for the suppression of poppy cultivation and the prohibition of opium-smoking. The success with which the new policy was attended varied, as will be shewn below, in different parts of the Chinese empire, but there can be no doubt that the imperial authorities have throughout been entirely in earnest in their desire for its enforcement.

Appointment of an International Commission to investigate the question of the opium traffic in the Far East

9. The next important phase in the proceedings was the meeting of the International Opium Commission at Shanghai. It is true that the delegates did not specifically discuss the terms of the British agreement with China; but a recognition of its existence underlay the whole of their deliberations, and the Chinese Government received a practical assurance of the sympathy of the whole world in its policy of reform which could not but exercise a considerable influence upon its future attitude towards the problem. The idea of a Commission was first mooted in 1907. In that year the Government of the United States of America addressed His Majesty's Government on the subject of opium consumption in the Far East. After pointing out their own interest in the matter in connection with the Philippines, they urged that the opium trade and habit were of such a character that civilised nations should do what they could to put a stop to them; and inquired what view the British Government would take of a joint investigation of the subject by representatives of the various countries concerned. His Majesty's Government expressed their complete readiness to co-operate, provided that the other powers were likewise willing to participate and that, as regards China, the inquiry should embrace the production of opium in that country as well as its import from abroad. It was eventually decided that an International Commission should meet in Shanghai on the 1st February 1909, and should be composed of delegates from the following countries :—China, France, Great Britain, Germany, Japan, the Netherlands, Persia, Portugal, Russia, Siam and the United States of America. Turkey also was invited, but failed to send representatives. At the urgent request* of the Government of India, the Secretary of State consented† to include among the British delegates an

* Telegrams to Secretary of State Nos. 4011-Exc. and 4366-Exc., dated, respectively, the 8th and 24th July 1908. Telegram to Secretary of State, dated the 2nd September 1908.

† Telegrams from Secretary of State, dated, respectively, the 14th July and 16th September 1908.

officer with recent and personal experience of Indian conditions, and Mr. J. B. Brunyate, I.C.S., was accordingly nominated. The exact scope of the inquiry was not clearly specified in advance. An indication of the lines which it might be expected to follow was, however, given by the preliminary suggestions of the United States Government. They recommend in May 1908 that the delegates of the various powers should prepare themselves for the Commission by an immediate and independent investigation of the opium question on behalf of their respective countries, with the objects of—

(*i*) devising means to limit the use of opium in the possession of each country;

(*ii*) ascertaining the best means of suppressing the opium traffic, if such existed, among their own nationals in the Far East; and

(*iii*) placing themselves in a position, when the Commission met in Shanghai, to co-operate and to offer, jointly and severally, definite suggestions of measures which their respective Governments might adopt for the gradual suppression of poppy cultivation and traffic in and use of the drug within their Eastern possessions; and thus to assist China in her purpose of eradicating the evil from her Empire.

They further suggested that each delegation should be prepared to inform the Commission as to the regulations and restrictions in force in its own country, and to formulate and discuss proposals for amending such regulations in points in which they might be found, in the course of the inquiry, " to affect the production, commerce, use and disadvantages of opium in the Far East."

10. The Commission assembled at Shanghai on February 1st, 1909, and sat through the greater part of the month. Attempts were made by the delegates of certain nations to engineer a discussion of various points connected with the Anglo-Chinese agreement. These were successfully resisted by the British representatives, and the resolutions finally adopted were of a general nature and treated of subjects with which an international commission was fully competent to deal. Their full text is given below :— *Resolutions adopted by the Shanghai Commission.*

(1) That the International Opium Commission recognises the unswerving sincerity of the Government of China in their efforts to eradicate the production and consumption of opium throughout the Empire; the increasing body of public opinion among their own subjects by which these efforts are being supported; and the real, though unequal, progress already made in a task which is one of the greatest magnitude.

(2) That in view of the action taken by the Government of China in suppressing the practice of opium-smoking, and by other Governments to the same end, the International Opium Commission recommends that each delegation concerned move its own Government to take measures for the gradual suppression of the practice of opium-smoking in its own territories and possessions, with due regard to the varying circumstances of each country concerned.

(3) That the International Opium Commission finds that the use of opium in any form otherwise than for medical purposes is

held by almost every participating country to be a matter for prohibition or for careful regulation, and that each country in the administration of its system of regulation purports to be aiming, as opportunity offers, at progressively increasing stringency. In recording these conclusions the International Opium Commission recognises the wide variations between the conditions prevailing in the different countries, but it would urge on the attention of the Governments concerned the desirability of a re-examination of their systems of regulation in the light of the experience of other countries dealing with the same problem.

(4) That the International Opium Commission finds that each Government represented has strict laws which are aimed directly or indirectly to prevent the smuggling of opium, its alkaloids, derivatives, and preparations into their respective territories; in the judgment of the International Opium Commission it is also the duty of all countries to adopt reasonable measures to prevent at ports of departure the shipment of opium, its alkaloids, derivatives, and preparations to any country which prohibits the entry of any opium, its alkaloids, derivatives, and preparations.

(5) That the International Opium Commission finds that the unrestricted manufacture, sale, and distribution of morphine already constitute a grave danger, and that the morphine habit shows signs of spreading: the International Opium Commission, therefore, desires to urge strongly on all Governments that it is highly important that drastic measures should be taken by each Government in its own territories and possessions to control the manufacture, sale, and distribution of this drug, and also of such other derivatives of opium as may appear on scientific inquiry to be liable to similar abuse and productive of like ill effects.

(6) That as the International Opium Commission is not constituted in such a manner as to permit the investigation from a scientific point of view of anti-opium remedies and of the properties and effects of opium and its products, but deems such investigation to be of the highest importance, the International Opium Commission desires that each delegation shall recommend this branch of the subject to its own Government for such action as that Government may think necessary.

(7) That the International Opium Commission strongly urges all Governments possessing Concessions or Settlements in China, which have not yet taken effective action towards the closing of opium divans in the said Concessions and Settlements, to take steps to that end as soon as they may deem it possible on the lines already adopted by several Governments.

(8) That the International Opium Commission recommends strongly that each delegation move its Government to enter into negotiations with the Chinese with a view to effective and prompt measures being taken in the various foreign Concessions and

Settlements in China for the prohibition of the trade and manufacture of such anti-opium remedies as contain opium or its derivatives.

(9) That the International Opium Commission recommends that each delegation move its Government to apply its pharmacy laws to its subjects in the Consular districts, Concessions, and Settlements in China.

The action taken by the Government of India to give effect to these resolutions, and the subsequent proposal of the American Government to hold a supplementary conference at the Hague to consider international action to the same end, will be described in a later paragraph of this chapter.

Approach of the end of the three years' term consideration of the desirability of renewing the agreement the terms offered to China.

11. In the meantime, the period of three years for which the agreement was originally concluded was approaching sufficiently near to its close to make it advisable to consider the desirability of continuing the progressive reduction of exports from India. The main condition upon which it was necessary to insist was that China should give evidence of an equivalent reduction of both cultivation and consumption within her own borders. It was, however, extremely difficult to form a comprehensive idea of the results which she had achieved. The Chinese Government itself, as admitted by its delegates at the Shanghai Commission, was unable to supply any trustworthy statistics of the progress of the reforms; and information on the subject was derived almost entirely from consular reports submitted by the British Minister at Pekin. It appeared from these that the central authorities were undoubtedly in earnest, and that real, though very unequal, progress had been made in the provinces with both the reduction of poppy cultivation and the suppression of opium-smoking. This fact had been fully recognised by the Shanghai Commission, and, although there was reason to believe that considerable tracts in the Chinese Empire were still but little affected by the reform movement, it was clearly advisable to assume that China had up to now fulfilled her part of the bargain. The Government of India were, however, so strongly impressed with the existing lack of all facilities for checking the progress made, that they urged* upon the Secretary of State the necessity of providing, in any renewal of the agreement, for an independent test of the success of Chinese reforms. There was another condition also which they considered it desirable to impose. The anxiety of the Chinese authorities to put down the consumption of opium had led them to impose restrictions upon the wholesale and retail trade in the drug, which had aroused bitter protests from Indian merchants engaged in the export traffic. It was recognised that some measure of check over retail sale was essential in the interests of control of consumption. The wholesale business, however, stood on a different footing. In sympathy with the reform movement, the Government of India were requiring their merchants to sacrifice a great portion of their trade; and it was unreasonable to expect them also to forego the bulk of their profit on that share of it which remained. On this principle, the Home Government had hitherto successfully resisted all encroachments upon the freedom of wholesale trade in the Treaty Ports. The task was, however, becoming increasingly difficult, and Lord Minto's Government now urged upon the Secretary of State the desirability of including in the renewal of the agreement specific provision for the protection of the interests of Indian

* Despatch to Secretary of State, No. 257, dated the 28th October 1909.

merchants. Lord Morley fully accepted* these views. In the instructions regarding negotiations with China for an extension of the agreement which have since been conveyed to the British Minister in Pekin, he has been desired to lay stress upon the inadequacy of the available information regarding the progress of the reforms. He is to offer the Chinese Government a temporary renewal of the agreement for a further period of three years upon certain conditions.† The first condition is that an examination of the actual state of poppy cultivation in China shall be conducted annually by Sir Alexander Hosie of the British consular service, and that the further continuance of the reduction of export from India after 1913 shall be contingent upon the receipt from that officer of favourable reports. The insertion of this provision was independently recommended by the British Minister, as well as by the Government of India. A second condition upon which it is proposed to insist is that the number of wholesale traders dealing with Indian opium in the Treaty Ports shall not be arbitrarily reduced below the present figure. At the same time, the Minister is to inform the Chinese Government that Great Britain will be prepared to consider any scheme for increasing the taxation upon foreign opium which does not involve differential treatment of the imported and the indigenous product. This concession is largely the result of the events described in the next paragraph. The inquiry by Sir Alexander Hosie has already commenced, but the discussion of the terms of renewal of the agreement is still in an early stage.

The events of 1910 fresh attempts of the Chinese authorities to institute an opium monopoly.

12. The conduct of the negotiations has been rendered especially difficult by certain events which took place in China in the summer of 1910. Early in May of that year, the merchants engaged in the export trade submitted representations complaining of the establishment of an opium monopoly by the authorities in Kwangtung and of the imposition of an additional tax of 300 dollars or Rs. 406 upon each chest of raw Indian opium imported into that province. These were followed by rumours that China had refused to allow import of the Indian drug into certain places, and by further complaints that the monopoly had been extended to the port of Swatow and that opium had been seized for non-payment of the new tax in that port and in the Canton delta. The opium market was very seriously affected by these rumours. The high rates obtainable in China in the early months of the year had led to considerable speculation, and the chests sold at the Calcutta auctions had realised extravagant prices. Opium now suddenly became practically unsaleable in China; the merchants found themselves with large stocks left on their hands; and prices at once fell heavily in Calcutta. There was every danger of a serious commercial (if not also a financial) crisis, and Government considered it necessary to urge strongly upon the India Office the desirability of bringing pressure to bear upon China for the rescission of the obnoxious measures. From the correspondence which ensued the true nature of the new procedure introduced by China became apparent. The Viceroy of Canton had notified the imposition, with effect from the 9th May 1910, of a tax on *prepared* opium of 300 dollars a chest. The tax was to be collected from Chinese importers of *raw* opium under harassing conditions and heavy penalties for evasion. It was to be farmed out to a Cantonese firm, which was to retain as its own remuneration thirty *per cent.* of the proceeds of the impost. The matter was not, at the outset, handled with the usual

* Telegram from Secretary of State, dated the 20th December 1909.
† Telegram to Secretary of State, No. 146-Exc., dated the 19th March 1910.

skill by the British Minister at Pekin; who was inclined to accept the official explanation that the object of the new arrangement was no more than the better regulation of the opium trade, the prevention of accumulation of stocks and the restriction of the number of opium-smokers, and that it was therefore unobjectionable. When the facts were fully reported, however, His Majesty's Government held that the new system of taxation involved a clear infraction of the additional article to the Chefoo Convention of 1876. This article had been concluded in 1885 and provided that, after paying a consolidated import duty of 110 *taels per* picul, foreign opium should be free from all taxation in a Chinese Treaty Port. The British Minister was accordingly instructed to call upon the Wai-wu-pu to withdraw the objectionable portion of the regulations without delay, and was authorised to warn the Chinese Government that a persistence in their present attitude of obstruction might lead to a denunciation of the additional article by Great Britain. At the same time, he was to promise consideration of any lawful proposal for an increase of taxation on the foreign drug. The Chinese Government has delegated an official to discuss the whole question with the British Minister, and a decision has not yet been reached. The stress on the opium market has, however, been relieved, and prices shew signs of recovery in both China and Calcutta.

The domestic problem in India: report of the Oakden-Butler Committee and the extent to which it was accepted by Government.

13. The actual restriction of exports from India was a matter of comparative simplicity. In the case of Bengal opium, all that was necessary was to limit the number of chests offered at the monthly auctions, and the figures were fixed at 46,800 for 1908, 43,200 for 1909 and 39,600 for 1910. This left for Malwa totals of 15,100, 13,600 and 12,100 in the three years in question.* The term "Malwa opium" had been declared† to include all opium exported from the port of Bombay, irrespective of the place of production; and the limitation was effected by means of a prohibition of export under section 19 of the Sea Cusctoms Act, 1878, which was notified as soon as the total reached the maximum permissible figure. The restriction of export necessarily involved a corresponding reduction of poppy cultivation in India, and it was a problem of some difficulty to decide how best to effect this object. So far as Bengal opium was concerned, it was comparatively plain sailing. The poppy was grown by cultivators on behalf of Government, the produce being worked up in Government factories and sold by the State to exporting merchants All that was necessary was to reduce the area of cultivation in such a way and by such gradual steps as to avoid both an unduly rapid curtailment of Government revenue and an excessive amount of hardship to the agricultural classes concerned. In the case of Malwa opium the situation was more complicated. Government were in no way concerned with the production or sale of the drug. It was grown in the native states of Rajputana and Central India, and its purchase and export afforded a means of livelihood to a large and influential body of merchants. The announcement of the progressive reduction of exports from Bombay aroused considerable apprehensions as well among the traders engaged in the traffic as in the states which derive a great part of their revenue from poppy cultivation. Strong representations on the subject were made to Government from various quarters, and it was recognised that the future treatment of the Malwa product called for very serious consideration. As the materials for a solution of the

* Notification No. 1818-Exc., dated the 27th March 1908.
† Letter No. 4096-Exc., dated the 14th July 1908.

difficulties which must arise were not readily available, it was decided to take steps to obtain them. Accordingly, with the approval* of the Secretary of State, Messrs. Ralph Oakden, I C.S., and M. S D. Butler, I.C S., were in January 1909 placed† on special duty for the purpose of collecting informat-ion upon certain points regarding the production of opium in India and the trade in opium so produced. The scope of their inquiry was thus to embrace the Bengal, as well as the Malwa, drug. They visited the centres of poppy cultivation in British territory and native states; conferred with the political and other officers concerned; held meetings of merchants and traders in various places; interviewed the representatives of the great shipping firms in Bombay; and submitted a report in April 1909 They dealt with the subject on the supposition that the reduction of exports to China would continue for three years after the expiry of the present agreement in 1910, and that the trade was probably doomed to extinction in 1916. While, therefore, their definite proposals dealt with the period up to the end of 1913 only, they outlined also the methods by which the eventuality of ultimate extinction could be met Their main proposals may be summarised as follows :—

(*i*) The area under the poppy in Bengal should be reduced to 500,000 bighas in 1910 and to 400,000 in each of the three following years. In effecting this reduction, cultivation should be con-centrated into the smallest possible number of charges; with the ultimate object of placing the Opium Department under a single Agent and abolishing one of the two existing factories.

(*ii*) The exports of Malwa opium permissible in 1910 should be left at the previously fixed figure of 12,100 chests. In the next three years they should be increased at the expense of the Bengal product; in order not only to give Malwa a chance of working off its accumulated stocks, but also to afford it a chance of capturing some portion of the trade with countries other than China. The new distribution of exports should be as follows :—

Year.	Number of chests.	
	Bengal.	Malwa.
1911	30,600	16,000
1912	26,500	15,000
1913	22,400	14,000

(*iii*) Baroda should be allowed the right of exporting a number of chests equal to seven *per cent.* of the total Malwa allotment.

(*iv*) The right of exporting Malwa opium from Bombay should be regul-ated by a system of auction sales: thus assimilating the proced-ure to that obtaining in Calcutta in respect of Bengal opium.

(*v*) It was desirable to consider the equity of sharing with the pro-ducing states any sum in excess of the present pass-duty of Rs. 600 which might be realised by the proposed new system.

(*vi*) No cash compensation should be given either to the native states or to the merchants engaged in the trade on account of the reduction, or the ultimate extinction, of the export traffic. In the case of the states any compensation which might be con-sidered necessary should take the shape either of permission to

* Telegram from Secretary of State, dated the 27th November 1908.
† Resolution No. 65-Exc., dated the 6th January 1909.

export more chests or of the purchase of raw Malwa opium which might be made up in the Bengal factories. The merchants had no claim of any kind to compensation.

The Government of India were in agreement with the general lines of these proposals. In order, however, to make the Malwa exports more constant from year to year, they preferred to make a slight change in the distribution of the total number of chests between the two varieties of opium; and finally adopted the following figures :—

Year.	Number of chests.	
	Bengal.	Malwa.
1911	31,440	15,160
1912	26,520	14,980
1913	21,540	14,860

Should the states succeed in securing a footing in the *extra*-China market, the distribution could be reconsidered from the year 1914; otherwise it would follow the general lines suggested by Messrs. Oakden and Butler. The only points in which Government failed to approve in their entirety the principles enunciated in the report were that they accepted the preference of the Government of Bombay for a scheme of tenders, instead of auctions; that they reserved for the present the question of sharing the profits of the new system with the producing Darbars; and that they were prepared to consider hereafter the necessity of making to smaller states, which paid a tribute heavy in proportion to their revenues, some concession in the shape of a reduction of its amount. These views were reported* to the Secretary of State and received his general approval.†

Reduction of the area of cultivation in Bengal.

14. In giving effect to the policy recommended by Messrs. Oakden and Butler, the Government of India had to undertake no immediate new departure of any magnitude. The restriction of cultivation in Bengal had already been taken in hand. For 1908-09, in modification of the original proposals, the area had been fixed at 800,000 bighas, as against 950,000 in 1907-08, and the figure had been further reduced to 654,000 for 1909-10. The Government of Bengal was now consulted as to the allotment for 1910-11, and on its advice an area of 575,000 bighas was settled, as the minimum consistent with the maintenance of an adequate reserve. A decision as to 1911-12 has been postponed until the results of the current season become known. At the same time, the Government of India considered that the process of restriction of cultivation had now advanced sufficiently far to justify a reduction of supervising establishment. In referring the matter to the two local Governments concerned, they took the opportunity of suggesting the desirability of transferring the control of the Opium Department from the Government and Board of Revenue of Bengal to the corresponding authorities in the United Provinces. In view of the facts that the greater part of the cultivated area already falls within the latter provinces, and that the probable reductions of the future were likely to occur mainly in the territories administered by Bengal, this change was one of obvious convenience; and both the provincial Governments readily accepted the proposal. With their concurrence, action on these lines was recommended‡ to the Secretary of State, and received his approval§ in August 1910. The post of Opium Agent, Bihar, is to be

* Despatch to Secretary of State, No. 257, dated the 28th October 1909.
† Telegram from Secretary of State, dated the 20th December 1909.
‡ Despatch to Secretary of State, No 171, dated the 30th June 1910.
§ Telegram from Secretary of State, dated the 17th August 1910.

abolished with effect from the 1st November 1910, and the whole Department is to be placed under a single Agent with head-quarters at Ghazipur. The Patna factory and saw-mills will, however, be retained until the effect upon the market of an experimental reduction of the monthly sales of Patna opium is known, and until satisfactory arrangements can be made for the manufacture of opium chests by private contract or otherwise. In order to test the possibility of dispensing in the future with the Patna drug, the quantity offered at each of the sales of 1911 will be 1,260 chests of this variety as against 1,360 of the Benares product.* If no unsatisfactory result ensues, the proportion will be further reduced in subsequent years. The transfer of the control of the Opium Department to the United Provinces will necessitate the amendment of Act XIII of 1857, which cannot be effected until the Imperial Legislative Council meets in Calcutta in the beginning of 1911. The actual transfer will, however, be made by executive order on the 1st November 1910, and the local Governments have been requested to settle the necessary details in consultation with each other.

The future of Malwa opium

15. In the case of Malwa opium, all that was immediately necessary was to notify the number of chests the export of which would be permissible in the three years 1911 to 1913 At the same time, it was considered desirable to give publicity to the fact that the tender system would be introduced with effect from 1912, and that pass-duty would not be accepted in advance on account of opium intended for export in that year. A limited quantity of such opium had already paid the duty, but the whole of this was refunded before the close of the financial year 1909-10, under guarantee that the particular chests would be allowed priority of export in 1912 on payment of pass-duty at the rate of Rs. 800 a chest. In the summer of 1910 certain of the producing states in Rajputana and Central India took a step which may in future prove to have considerable effect upon the revenues of British India. Up to that time, the Darbars had levied no taxation upon opium produced in and exported from their territories with the exception of a nominal export duty only. They now proceeded to impose export duties which amounted in some cases to as much as Rs. 200 a chest. The immediate effect upon the revenues of Government was *nil*, seeing that, under the existing arrangement, Government are content with the receipt of a fixed sum in the shape of pass-duty and leave the rest of the profits to the trade. With the introduction of the tender system, however, the position will be very different. The levy of the duty will increase the price of the drug to the merchants, and will correspondingly reduce the amounts which they will be prepared to bid for the right of export. In this way the producing states will annex a portion of the profits which would in the ordinary course have come into the Government treasuries. The policy to be adopted in the matter is still under discussion, but it is probable that the Government of India will raise no objection to the levy of the new duties, so long as they are kept down to a moderate figure.

Action taken by the Government of India in connection with the recommendations of the Shanghai Commission.

16. The full text of the recommendations of the Shanghai Opium Commission has been given in paragraph 11 of this chapter. The Secretary of State forwarded a copy of these to the Government of India and asked† for an expression of their opinion. Lord Minto's Government cordially accepted the general principles of the resolutions and decided that the suggestions relative to internal administration merited the most careful attention. The

* Notification No. 3299-A., dated the 27th June 1910.
† Despatch from Secretary of State, No. 88 (Revenue), dated the 6th August 1909.

various local Governments were accordingly requested to submit detailed reports upon the subjects of the second and fourth resolutions, which dealt with this matter, and were further desired, in the interests of the restriction of opium consumption, to consider the advisability of raising the prices at which the drug is issued to retail vendors. In reporting* this action to the Secretary of State, the Government of India took the opportunity of explaining their views on several points embodied in the resolutions. They pointed out that the shipment of opium from Indian ports other than Calcutta and Bombay was already strictly prohibited, and that in the two ports in which it was allowed it was subject to stringent regulation. They would be fully prepared, when the time came for such action, to make use of section 19 of the Sea Customs Act to forbid the export of the drug, its derivatives and its by-products to all countries which prohibited their import, and to take all reasonable supplementary measures to render the regulation effective. As regards the control of the manufacture, sale and distribution of morphia, they pointed out that all possible action was already being taken in India; and that, unless the Western Governments imposed adequate restrictions upon their manufacturers and traders, it was impossible for Eastern countries to deal effectively with the growth of the morphia habit. As for the proposed investigation of the properties of opium and of anti-opium remedies, they remarked that the question affected India incidentally only. The Commission clearly contemplated an inquiry of a scientific character, to be carried out in Western countries; and the main point which they had in view was the discovery of an antidote to the smoking habit, which was practically non-existent in the greater part of India.

Proposal of the United States that an International Opium Conference should be held at the Hague.

17. At one of the sittings of the Shanghai Commission, the American delegates proposed a resolution advocating the holding of an international conference to conventionalise the findings of the Commission. The suggestion was opposed by the British representatives, and the motion was eventually withdrawn. In September 1909, however, the United States Government addressed a circular to all the powers which had been represented on the Commission, inviting their assent to a Hague Conference, at which arrangements should be made for giving international effect to the resolutions passed at Shanghai. The circular set forth a tentative programme of fourteen items for discussion, including certain points of the gravest importance with which the International Commission had not attempted to deal. Among these may be mentioned the following :—

(*i*) The propriety of restudying treaty obligations and international agreements under which the opium traffic is at present conducted.

(*ii*) The advisability of a reciprocal right of search of vessels suspected of carrying contraband opium.

(*iii*) The desirability of measures to prevent the unlawful use of a flag by vessels engaged in the opium traffic.

(*iv*) The appointment of an international commission, to be entrusted with the execution of any international agreement that might be concluded.

Even this programme was not to be exhaustive. The Hague delegates were to have full powers to deal with the whole question in all its aspects.

* Despatch to Secretary of State, No. 140, dated the 2nd June 1910.

The Government of India were consulted* by the Secretary of State as to the expediency of accepting this proposal, and in reply† advised His Majesty's Government very strongly against participation in a conference of the kind. They pointed out that the findings of the Shanghai Commission were intended to be the basis of future individual action by the different countries concerned, and that there was nothing to be gained by convening a conference to discuss the possibility of uniformity where the Commission had admitted variety. No attempt had been made to justify a re-examination of the points on which that body had so recently pronounced, and the proper course was to take the Shanghai resolutions as a starting ground, and concentrate attention upon the best means of carrying them to a practical conclusion, whether by individual or by joint action If the proposed conference were kept within its proper limits, it would find little or no scope for its activities. A discussion of proposals affecting the treaties and diplomatic arrangements between Great Britain and China was certainly not a matter in which His Majesty's Government should seek the advice of other Powers

The idea of a conference was accepted by the other Powers consulted and, in spite of the strong expression of opinion by the Government of India, it is probable that it will shortly take place and that the control of the traffic in morphia and cocaine will be included among the subjects for discussion.

B.—EXCISE.

The report of the Excise Committee of 1905-06.

18. Early in the course of Lord Minto's administration it became necessary to take action on the report of the Excise Committee which had conducted its investigations during the winter of 1905-06. The circumstances under which this important Committee had been appointed, and the objects to which its attention had been directed, are described at pages 117-118 of the summary of Lord Curzon's administration. The Government of India had throughout the discussion on excise policy which preceded the appointment of the Committee made it clear that their primary object was not the increase of excise revenue, but the restriction and regulation of consumption. Fiscal considerations in connection with the liquor traffic were important not as an end in themselves, but because the most effective method of forwarding the policy of Government in regard to consumption is to make the tax upon liquor as high as possible without stimulating illicit production or driving the consumer to substitute deleterious drugs for alcohol. The unanimous report which was submitted by the Committee in July 1906 was followed in 1907 by the issue of a series of resolutions based on the recommendations of the Committee and dealing in detail with the most important problems of excise administration. It will be convenient to summarize shortly for the purpose of the narrative the resolutions thus issued.

The question of privileges and concessions outside the scope of the excise system.

19. The Committee dealt in the first instance with the comparatively unimportant question of concessions outside the scope of the excise systems. The chief of these are (*a*) personal privileges, and (*b*) concessions to backward tribes. The former are allowed only in the United Provinces, the Central Provinces and Ajmer-Merwara, and in the first two they were likely to shortly disappear. As regards Ajmer-Merwara, the Government of India approved‡ of the Committee's suggestion that the concession of free distillation of spirits for personal consumption allowed to the *tazimi istimrardars* should cease with

* Despatch from Secretary of State, No. 129 (Revenue), dated the 12th November 1909.
† Despatch to Secretary of State, No 129, dated the 26th May 1910.
‡ Government of India Resolution No. 7057 Exc., dated 18th December 1906.

the lives of the present holders. The concessions to backward tribes relate mainly to the free brewing of country beers, while in respect of spirits and *tari* they are comparatively insignificant. As regards the latter the Government of India accepted the view of the Committee that while the progressive restriction of the areas of privilege, and the gradual introduction of control with a view to the diminution of intemperance, should be kept steadily in view by the local Governments concerned, no attempt should be made to introduce a regular excise system in places where Government has no means of exercising complete control over the operations of the liquor seller. As to country beers the Committee expressed the opinion that they should not, generally speaking, be treated differently from other alcoholic liquors, and that much greater control than that which is now exercised is required in districts where their consumption is most common. This has been accepted by the Government of India together with certain further measures of reform, *e.g.*, the necessity for imposing a minimum price; the grant of licenses for a term of years; and the strict enforcement of the licensees' liability for the employment of sanitary methods of manufacture.

Resolution dealing with control of manufacture and sale of country spirit.

20. The most important of the Government's resolutions were undoubtedly those dealing with the control of the manufacture and sale of country liquor. In the resolution No. 2994-Exc. of 16th May 1907 the Government of India emphasized the necessity of continued progress in the reduction of the areas supplied under the outstill system and the better regulation of the manufacture and sale of liquor under that system. Much had been done of late years in the former direction; but the Government of India agreed with the Committee in thinking that progress might be persisted in until the system was restricted to the large block of feverish and inaccessible country lying between Chota Nagpur and the Godavari, and to a few scattered areas in the United Provinces, Madras, Bombay, and Baluchistan. Turning to the question of the production of country spirit in areas under the distillery system, the Government of India had no hesitation in supporting* the recommendation of the Committee for the gradual abolition of the central and sadar distillery and the district monopoly systems and their eventual replacement as a system of supply (except in the Punjab) by a contract distillery system on the lines of that at present in force in Madras. This system† had already been introduced in Berar and in a large part of the Central Provinces, in several districts of Bengal and Bombay, in the Sibsagar district of Assam, and in certain parts of the Tenasserim division in Burma.

At the same time attention was to be directed to the improvement of the quality of the country spirit sold in distillery tracts by greater concentration and more adequate supervision of distilleries, and by requiring periodical analysis of samples of liquor produced. In furtherance of these objects it was decided to appoint three excise distillery experts, such as the Madras Government already possessed, for the supervision of distillery work in (*a*) Bengal and Eastern Bengal and Assam, (*b*) the United Provinces, the Punjab and the Frontier Province, and (*c*) Bombay and the Central Provinces, and to establish distillery schools for the training of the local distillery officers and distillers. The Secretary of State, on being addressed‡ on the subject, selected and sent out three officers of the English Excise Department, who were possessed of the requisite qualifications. Their appointments are to continue,

* Resolution No. 2994-Exc., dated 16th May 1907.
† *Cf.* Summary of Lord Curzon's administration, page 123.
‡ Despatch to Secretary of State, No. 20, dated 21st January 1909.

in the first instance, for a term of three years only; and local Governments have been requested to report, by April 1912, on the working of the arrangement and the desirability of a permanent retention of the posts. The Home Government had, at the instance of the Government of India, already agreed* to the maintenance till the end of March 1908, as an experimental measure, of the central excise laboratory at Kasauli (which had been established in 1905 with the object of ascertaining the possibility of the prescription of a simple and practical test for purity) and it has since been decided† to continue it, on the present footing, until the 31st March 1911. The laboratory has been placed under the general administrative control of the Inspector General of Excise and Salt. It has already produced important results in the shape of tables to be used in connection with the blending and reduction of spirits under Indian ranges of temperature, and a revised edition of Sikes' tables for the testing of spirit-strength by means of hydrometers.

Proposed increase in still head duty on country spirit

21. The natural corollary of the measures for the more complete control of production and for the improvement of the quality of country liquor was, in the opinion of the Committee, the enhancement of the existing local rates of still-head duty and the introduction of adequate measures to prevent the production of illicit liquor. It was desirable that the still-head duty should remain the principal factor in taxation and that the revenue to be obtained from the disposal of vend licenses should be subsidiary only ‡ It was anticipated that the still-head duty could in the majority of provinces be raised (were adequate preventive measures introduced at the same time) without giving rise to grave danger of illicit practices.

Resolution dealing with the sale of 'foreign' liquor.

22 Second in importance to the recommendations dealing with country liquor were those dealing with the sale of "foreign" liquors. In the resolution§ dealing with this subject the Government of India laid down as a guiding principle that foreign spirits should be taxed in such a way as to avoid any undue stimulation of their sale in preference to country spirit. The exact definition of the term "foreign spirit" had always presented a problem of great difficulty. In generally adopting the line of division suggested by the Committee (which included in the term foreign spirits all liquors of Indian manufacture so coloured, sophisticated or described as to make them identical with or to give them the impression of being identical in character with imported spirits, and all similar liquors manufactured from special bases such as malt and toddy), the Government of India decided that the manufacture and quality of "foreign liquors", and the assessment of duty thereon, should be regulated by (*a*) the control of the flavouring and colouring of locally produced liquors; (*b*) a periodical examination of samples of imported liquors with a view to the prohibition of the sale of those that are impure or otherwise undesirable, (*c*) the control of the arrangements for compounding and bottling of imported liquors; and (*d*) a prohibition of their sale below prescribed minimum strengths. One of the matters into which the Committee had been asked to enquire was the truth of the allegation that some particular varieties of imported liquor are specially deleterious as compared with country liquor. The result of their enquiries showed that so far as cheap imported spirit is concerned there is no reason to prohibit its importation on the ground that it is unwholesome, since from a hygienic standpoint it compares favourably

* Despatch to Secretary of State, No. 414, dated 29th November 1906.
Despatch from Secretary of State, No 1-Rev, dated 11th January 1907.
† Despatch from Secretary of State, No 90-Rev, dated 31st July 1908.
‡ Resolution No. 2994 Exc., dated 16th May 1907.
§ Resolution No. 2995 Exc., dated 16th May 1907.

with the more highly priced imported liquors. The real objection to this class of spirit was that owing to its extreme cheapness it competed to an undesirable extent with country spirit, and that it was becoming increasingly popular among the natives of India as being in essence the drink of the European classes. This objection, it was anticipated, would be met by the increase in the duty on imported spirits which had recently been effected and by the prohibition of their sale below prescribed minimum strengths.

23. As regards "foreign" spirit produced in India, it was decided to introduce a system of inland transport in bond, so as to place the local trade on an equal footing with imported spirits. The Government of India were further of opinion, in accord with the view of the Committee, that the existing arrangements for the vend of foreign liquor should be improved (*a*) by the grant of wholesale licenses and retail licenses for consumption off the shop premises on fixed fees sufficiently high to keep the business in respectable hands, but not so high as to hamper legitimate trade; (*b*) by the restriction of the number of licenses for consumption on the premises and of beer tavern licenses within the narrowest possible limits; and (*c*) by the prohibition of the sale of " foreign " and " country " liquors on the same premises.

Resolution regarding tari; *the tree-tax system.*

24. As regards *tari*,* the principal reform in contemplation was a tentative move in the direction of introducing the tree-tax system. It has generally been supposed that toddy is the least noxious of all the forms of alcohol in common use in India. The Committee, however, pointed out that toddy is considerably stronger than has sometimes been imagined, and that statements as to its relative harmlessness apply only to cases in which it is drunk fairly fresh and in moderate quantities. They further found that the consumption of toddy in parts of Bengal, the United Provinces, the Central Provinces, Berar and Coorg is considerable, and requires more adequate check by improved excise methods and enhanced taxation than it has yet received. The proposed enhancement of taxation on country spirit would involve a considerable risk of increased consumption of toddy in the areas referred to, unless steps were taken to check this also by increase of taxation and by restrictions on its use. The Committee expressed the opinion that the necessary check would best be imposed under a tree-tax system, and the Government of India directed the attention of local Governments to the desirability of adopting such a system, subject to the necessary safeguards. In the Central Provinces and Berar its experimental introduction in one district had already been decided upon, and the matter had also been taken up by the Governments of the United Provinces, Eastern Bengal and Assam and Bombay. The Committee suggested a similar experiment in the case of Bengal.

Resolution regarding the method of disposing of vend licenses.

25. On the somewhat controversial subject of the method of disposing of licenses for local vend, the Government of India did not find themselves in complete accord with the recommendations of the Committee. That body had expressed their preference for a non-competitive system, but the Government of India came to the conclusion that the best system is a properly regulated auction system, under which the period for which shops are auctioned would be extended up to three years at the discretion of the local Governments. They thought that, though the existing system doubtless requires some modifications of detail in its working, it would be a retrograde step to seek to replace it generally by one of fixed fees.† A letter addressed to the

* Resolution No. 2996 Exc., dated 16th May 1907.
† Resolution No. 2997-Exc., dated 16th May 1907.

Government of the Punjab in 1903 may be quoted as summarizing the reasons for this opinion :—

"The leading principle of the auction system is that as large a portion as possible of the total revenue on country spirits should be derived from the fixed duty, but in addition to the fixed duty a subsidiary and variable revenue is drawn from the fees for licenses for retail vend which are sold by auction. The disposal of vend licenses by auction serves as a simple but sure guide to the local demand and indicates whether the still-head duty is adequate or otherwise. In the opinion of the Government of India it is inadvisable to obtain more than a subsidiary amount of revenue from this source, and disproportionately large receipts from vend rents would indicate that the still-head duty was too small and might be raised, and not that the system should be changed. The objection to fixed vend fees is that experience has shown that it is practically impossible to fix such fees with due regard to the interests of the revenue, and that they generally tend to a level at which they yield large profits to the licensees, with the result that there are several applications for a single shop, constant and troublesome appeals from disappointed candidates, and the risk of collusion with the office establishment."

Questions relating to the location and licensing of liquor shops.

26. Dealing next with the questions connected with the number, location and licensing of liquor shops, the Government of India remarked* on the importance of these questions in their bearing on the policy of restricting the consumption of liquors by fiscal measures. The report of the Committee showed that throughout India as a whole the proportion of shops to the population which they serve is extremely moderate. The distribution, however, is very uneven, there being some areas where the facilities for supply are in excess, and others where they are so deficient as to provide a direct incentive to illicit practices. It is clear that if shops are so sparse that each has a practical monopoly over a considerable area, prices will inevitably be raised and illicit practices encouraged. On the other hand, while shops need not necessarily be so limited in number as to make it impossible for a resident to get his liquor except from one liquor shop, it should only be possible for him to do so at the cost of considerable inconvenience, and he ought to have as little freedom of choice in the matter as possible. The local Governments were accordingly requested to investigate the number of shops required in their provinces with reference to these criteria. There was no intention on the part of the Government of India to increase the total number of shops in India. The investigation should aim at a redistribution where the present arrangement is uneven, and at a reduction where the number of shops is in excess; and a minimum and maximum scale of shops should be fixed for every sub-division of a district and for each municipality.

The same; suggestion to appoint local committees for licensing of shops.

27. As to the licensing and location of shops, it was requested that local opinion should be consulted more systematically and recorded more definitely than had previously been the case. The machinery which the Committee proposed for the licensing of shops in the presidency and other large towns was a small local committee. The Government of India came to the conclusion that a similar body might suitably be utilised for drawing up the maximum and minimum scales both in the presidency towns and in other large municipalities with a population exceeding 20,000 or some other suitable figure to be fixed by the local Government. These committees might prepare their proposals, or consider those of the Collector, once in three or five years and submit them to the chief revenue authority for the approval of Government, whose decision should be final. The employment of a similar agency for rural areas,

* Resolution No. 5086-Exc., dated 15th August 1907, paragraphs 2-6.

or even for small towns, appeared to the Government of India to be of somewhat doubtful value and the extension of the system outside the larger towns was left to the discretion of local Governments.

The same, position of licensed shops and similar questions.

28. The exact position of shops for which licenses have been granted is a matter on which there has been considerable diversity of opinion. The Excise Committee recommended that in the case of village shops in areas inhabited by aboriginal tribes or other classes who need specially to be protected against themselves it is advantageous to have a distance limit, and the location of shops at a bazar to which aborigines periodically resort is to be deprecated. In respect of ordinary villages the advantage was in their opinion in location within the village site, where policing is easy and the respectable inhabitants can assist in securing proper management. Both in the case of town and ordinary village shops a mean should be struck between over-publicity and concealment. The shop should never occupy a position to which the near neighbours object on grounds other than those of personal spite and so far as possible it should be at a distance from religious and other institutions. With these recommendations the Government of India expressed agreement, and they also approved of the suggestion that proposed sites for shops should be notified with the object of ascertaining any local objections to them, and of obtaining the opinions of those who may be specially interested. They further suggested that the local licensing committees above referred to should be consulted also on questions of the location of shops. On the important subject of the restrictions to be imposed on the retail sale of liquor the Committee recorded a number of recommendations which were in the main accepted by the Government of India, and a great variety of detailed instructions was issued* regarding the structural details of shops, the supply of liquor to minors, the hours and limits of sale and of private possession, the regulation of strengths and prices of the liquor to be sold, and similar matters.

Recommendations of Excise Committee regarding establishment; relation to police.

29. The recommendations of the Committee on the subject of excise establishment involved a number of questions on which it was necessary to address local Governments in detail. Certain general principles were however discussed,† to which a brief reference may be made. The Government of India were unable to accept in their entirety the proposals of the Committee for giving a more independent position to the provincial Excise Commissioners, and considered that, where the Excise Commissioner is different from the chief revenue authority, he should be subordinate to the latter. Similarly, the district head of the Excise Department, however recruited, should be subordinate to the Collector. On the other hand, Commissioners of divisions should have no direct concern with excise, though they should be consulted on questions of general excise policy both by Collectors and by superior authority. The Government laid emphasis on the necessity for the adequate remuneration of the preventive excise establishment. Subordinate officers should be kept under adequate supervision; peons and petty officers should be given no independent detective duties and their numbers should be limited. As regards the relations between the preventive staff and the police, the former should be responsible for the inspection of shops and prevention of excise offences; while the police should co-operate in detection, be liberally rewarded for so doing, and be expected to provide a force when large seizures are in prospect. Prosecution for excise offences should, when the preventive

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* Resolution No. 5086-Exc., dated 15th August 1907, paragraphs 7-15.
† Resolutions Nos. 4341 to 4345-Exc., dated 11th July 1907.

force has been re-organized, be instituted directly by excise officers without the intervention of the police; and the superior excise staff should have sufficient discretionary power to enable them to release persons brought before them where adequate proof of an offence is not forthcoming. Dealing finally with the question of the amalgamation of the Excise with other Departments, the Government of India considered that the Salt and Excise Departments belonging to the same local Government should be amalgamated, but no amalgamation should be attempted between the provincial excise staffs and the Northern India Salt Department.

Creation of appointment of Inspector-General of Excise and Salt.

30. The Excise Committee had represented the advantages of appointing an imperial officer with a general knowledge of the different excise systems in India who would be available for investigation, consultation, and advice. The Government of India accordingly, with the approval of the Secretary of State,* sanctioned the appointment of an Inspector-General of Excise and Salt, on a salary of Rs. 3,000 a month, with effect from September 1907.† His functions are purely advisory and consultative; he will exercise no authority over provincial Excise and Salt Departments, and will not call for any returns or reports from them. This regulation of his duties is in entire accord with the recommendations which have since been made by the Royal Commission on Decentralisation in respect of the work of Inspectors-General as a class.

Amendment of the Excise Acts.

31. The Committee came to the conclusion that the Northern India Excise Act, XII of 1896, was altogether unsuited to the conditions of present day excise administration and should be replaced by legislation of a permissive character similar to the Madras Abkari Act of 1886. They further suggested that there should be one Excise Act for all the provinces where Act XII of 1896 was in force, that Bengal and Eastern Bengal should also be brought within the scope of the general Act for Northern India, but that each local Government might undertake subsidiary legislation for special purposes for its own province. The Government of India, while agreeing with the Committee as to the unsuitability and repeal of the Northern India Excise Act, have decided against the preparation of a general excise law for the whole of India. In their opinion separate local legislation should be undertaken province by province, and the various local Governments and Administrations concerned, except Madras and Bombay, were asked‡ to consider the desirability of such legislation. The Governments of Madras and Bombay were requested§ to remove a number of defects in their local Acts to which the Committee called attention. The Government of India also brought to the notice of local Governments the necessity for revision of their existing Excise Manuals on a uniform plan. Draft Excise Bills for Bengal, Eastern Bengal and Assam, the United Provinces, Madras, Burma, the Central Provinces and Ajmer-Merwara have been submitted by the respective local Governments and Administrations. With the sanction‖ of the Secretary of State, the three first mentioned have already been introduced in the provincial Legislative Councils, and his Lordship has further agreed¶ to the introduction of the Central Provinces Bill in the Imperial Council. The

* Despatch to Secretary of State, No. 221, dated 13th June 1907.
† Despatch from Secretary of State, No. 126-Rev., dated 2nd August 1907.
Letter No. 6599-Exc., dated 28th October 1907.
‡ Letters Nos. 4737-Exc. to 4739-Exc., 4742-Exc. to 4744-Exc., and 4746-Exc., dated 30th July 1907.
§ Letters Nos. 4740-Exc. and 4741-Exc., dated 30th July 1907.
‖ Telegram from Secretary of State, dated 12th January 1909.
Telegram from Secretary of State, dated 2nd March 1909.
Telegram from Secretary of State, dated 27th January 1909.
¶ Despatch to Secretary of State, No 109, dated 19th May 1910.
Despatch from Secretary to State, No 46-Rev., dated 8th July 1910.

three remaining bills are under the consideration of the Government of India.

32. The Royal Commission on Decentralization made certain proposals regarding the degree of control over Excise administration that should in future be retained by the Government of India. They pointed out that orders governing the general Excise policy of the State have now been laid down, and suggested that, with the settlement of such outstanding points connected with these orders as may be at issue between the Government of India and local Governments, the detailed control at present exercised by the former over the latter should be considerably relaxed. It has been decided to accept this recommendation, and attention will be devoted hereafter to important questions of policy or principle only, minor deails being left for settlement to the local Government concerned. Care will also be taken that the orders issued on the Excise Committee's Report shall not involve constant future interference with the administration of those Governments.

Review of recent excise policy and administration.

33. The course of recent excise policy and administration was reviewed by the Government of India in an important despatch issued in the year 1908 In the previous August Mr. (now Sir) Herbert Roberts, M.P., had, on behalf of a deputation, presented to Lord Morley a statement criticising that administration and seeking to impose upon Government the responsibility for the recent rise in the consumption of liquor in India. A copy of this statement was forwarded to the Government of India, who replied to it in their despatch No. 294, dated the 8th October 1908. They admitted the tendency to increased consumption of alcohol among certain classes of the population, but argued that this fact was sufficiently explained by causes already well known. Among these they instanced the increasing material prosperity of the people, the steady growth of industrial enterprise, the construction of important public works, leading to the more regular and extended employment of labour, the rise in the rates of wages, and the influence of western education in unsettling popular ideas and beliefs and relaxing social and religious restrictions on the use of spirituous liquor. These causes had undoubtedly led to some growth of the habit of drinking, but, at the same time, there was reason to believe that the extent of the increase in consumption had been considerably exaggerated. Under the old outstill system, which is now giving place to more modern methods of supply, no record was kept of the amount of liquor consumed; with the extension of distillery areas, the recorded issues must therefore of necessity increase. Improved methods have also operated to reduce the smuggling from Government distilleries, which was so rife in the early days of the Central Distillery system. In the light of these facts, it is obvious that an increase in recorded issues does not necessarily imply a rise in consumption; and the Government of India expressed their conviction that the apparent rise was largely due to the expansion of the distillery area and the substitution of licit for illicit spirit. They contended that the use of alcohol by the aboriginal races of India had been restricted by their excise administration; and that, although there was a tendency to increased indulgence among certain other classes of the population, they had hitherto been able to keep that tendency under reasonable check by means of taxation, and were of opinion that this form of control would be found just as efficient in the future. In conclusion, they declared that the settled policy of the Government of India is to minimise temptation to those who do not drink and to discourage excess among those who do, and asserted that all considerations of revenue have throughout been absolutely subordinated to this policy.

CHAPTER VII.

Military Finance Branch of the Finance Department.

In paragraph 18 of Mr. Brodrick's Military Despatch No. 66, dated the 31st May 1905, it was suggested that upon the substitution of an Army and a Military Supply Department for the former Military Department of the Government of India it would be expedient to place the Department of Military Accounts under the control of the Finance Department. The Government of India agreed that this would be desirable and in fact necessary. There was no longer a single Department of the Government of India charged with the administration of the Army in all its branches, this work having been divided between the Army and the Military Supply Departments, and the Department of Military Accounts could not properly be placed under the control of either of these. It could not come under the Army Department, for the head of that Department is the Commander-in-Chief, and it would be quite opposed to sound financial principles to place the audit and accounts staff under the control and orders of the high officer with whose expenditure they deal. Neither could it be placed under the Department of Military Supply, for that course would have the effect of subordinating the Commander-in-Chief to that Department in matters of account.

2. But the transfer of the Department of Military Accounts to the Finance Department involved a heavy addition to the work of that Department, which henceforth had to deal with the numerous questions which the Military Department formerly referred to the Military Accountant General, who was also *ex-officio* Deputy Secretary for Finance in the Military Department. The Finance Department also became responsible for the military budget and the compilation of the military schedules. The Department required strengthening to enable it to cope with the increased work, and that accession of strength could not be utilised in the most effective and economical manner unless it was placed at the disposal of the military authorities from the outset of their deliberations in regard to projected expenditure, and not merely at the final stage. It was accordingly decided, with the sanction of the Secretary of State, to create a special branch of the Finance Department, to be styled the Military Finance Branch, which should assume the executive control of the Military Accounts Department and should relieve the ordinary branch of the Finance Department of all questions relating to military expenditure involving financial considerations. The officers of the Military Finance Secretariat establishment, which was sanctioned by the Secretary of State on the 3rd April 1906 and which came into existence on the 13th idem, were to remain exclusively subordinate to the Honourable Member in the Finance Department, while working in close proximity to, and in constant communication with, the military authorities to whom their advice and assistance is available at all times. During the first year of its existence, the Military Finance Branch was placed under a separate Secretary to the Government of India, *i.e.*, there were two Financial Secretaries, one for ordinary work and one for Military Finance. The arrangement was, however, sanctioned on a provisional basis, and was to be reconsidered when the new arrangements in connection with the administration of the Army had been placed on a satisfactory footing. In pursuance of this

scheme the Military Finance Secretary became an *ex-officio* Member of the Commander-in-Chief's Advisory Council and (when financial matters were under consideration) of the Mobilisation Committee also, and was to be available as an adviser to His Excellency the Commander-in-Chief and to the Honourable Military Supply Member, whenever they might wish to consult him. It was anticipated that this arrangement would in many cases lead to proposals involving expenditure being dropped or modified without the necessity of the formal intervention of the Finance Department, while cases that came before that Department would be noted on by the Military Finance Secretary with a much fuller knowledge of the circumstances than would otherwise be possible. In this way it was hoped to establish intimate and cordial relations between the military and financial authorities, and to leave as little room as possible for friction. The Military Finance Secretary would further be at liberty on his own initiative to submit suggestions for any economies in military administration which seemed to him desirable and feasible, and would in addition be responsible for the budget and military schedule work referred to above.

3. As a further result of the Secretary of State's orders the Military Accountant General became an *ex-officio* Deputy Secretary in the Military Finance Branch of the Finance Department, as he was formerly in the Military Department, while an ordinary Deputy Secretary in that branch took the place of the former Financial Adviser to the Commander-in-Chief. The branch was also provided with two Assistant Secretaries (reduced to one in 1910), and one *ex-officio* Assistant Secretary (the Military Deputy Accountant General), with a suitable office establishment, chiefly transferred from existing offices. As a consequence of these changes, which had the effect of converting the Military Accounts Department into a civil agency, the Secretary of State requested the Government of India to consider whether it was necessary to recruit that department by officers from the Army.

Constitution of the Military Finance Branch

4. The question of the continuance of the provisional arrangements above indicated came under discussion in the summer of 1906.

In paragraph 7 of their Financial despatch No. 9-M. F., dated the 14th June 1906, the Government of India anticipated that it would probably prove possible after the new branch had been brought into working order to dispense with the appointment of a separate Secretary in that branch, but promised a further communication on that point in the following January. Meanwhile in his Financial despatch No. 151, dated the 7th December 1906, Lord Morley took exception to the proposal that the Military Finance Branch should combine the dual duties of (*a*) criticising proposals for military expenditure as a branch of the Financial Department, and (*b*) supervising the preparation of the military budget and the military schedules, this being work which had hitherto been performed by the Military Accountant General with the assistance of the old Military Department. He anticipated that this combination of functions might result in the weakening of the control exercised by the Finance Department over military expenditure, and suggested that the Military Accountant General should be disassociated from the Finance Secretariat, and given a more independent position than appeared to have been contemplated, and that he should be authorised to advise the Army and Military Supply Departments on cases which, under the arrangements previously in force, would have been referred to him by the Military Department. The Government of India, replying in their Financial despatch No. 10-M.F.,

dated the 7th February 1907, objected to this alternative scheme on the ground that it would constitute in effect a reversion to the state of things which it had been the main object of the new Army Head Quarters organisation to remedy. Referring to the analogy suggested by the Secretary of State in the relation of Civil Accountants General to the head of a province, they pointed out that the latter is provided with a Financial Secretariat through which the real scrutiny of financial proposals is made; no similar scrutiny over measures of army expenditure could be effected by an officer whose primary functions were those of account. They emphasised the importance of ensuring that every proposal for military expenditure should be brought under examination at as early a stage as possible by a responsible officer of the Finance Department, and explained that the new arrangements through which the Military Finance Secretary was in close association with army administration had strengthened the control previously existing and had worked without friction, while the new system had also improved the administration of the Military Accounts Department by relieving the Accountant General of a large portion of his former Secretariat work, and thus enabling him to devote more time to the military account arrangements. Experience had in fact appeared to show that a still closer connection between the financial and administrative authorities would make for efficiency, besides preventing a certain amount of duplication of work. With this object they proposed that while the charge of the Military Finance Branch should be entrusted, under the control of the Honourable Finance Member, to a Joint Secretary in the Finance Department, the same officer should also be constituted a Secretary in the Army Department in order to deal direct in that capacity with all Army cases of a financial nature. Under this arrangement the Joint Secretary as Army Secretary for Finance would dispose of or submit to His Excellency the Army Member any cases which did not involve solely administrative issues, referring them afterwards, in his capacity as Joint Secretary, to the Honourable Finance Member if the orders proposed were such as under the accepted practice required the concurrence of the Finance Department. The Army Secretary would thus be relieved of financial work hitherto falling upon him, while the Army Member would have the advantage of expert financial advice when deciding what orders were to be passed, or recommendations to be made for the concurrence of the Finance Department, as the case might be. These views were accepted by the Secretary of State in his Financial despatch No. 49, dated the 12th April 1907, and the modified system was shortly afterwards brought into effect.

5. The Department of Military Supply exercised throughout its existence the financial powers of a Department of the Government of India, and referred to the Military Finance Branch such proposals only as exceeded those powers or related to special expenditure. On the abolition of this Department on the 31st March 1909, and the transfer of its work to the Army Department, the Military Finance Branch took over the financial business previously disposed of by the Department of Military Supply. From the 1st April 1909, therefore, every item of army, marine, military works, and special defences expenditure has come under the examination of the Military Finance Branch at the earliest possible stage.

General work of the Military Finance Branch.

6. It will be seen from the foregoing paragraphs that the immediate object of these changes has been to reinforce financial control by bringing it into more direct connection with army administration. The main work of

the Military Finance Branch necessarily consists in the examination of proposals put forward by administrative departments, the history of which will be found in other summaries. On this point it need only be said that the new arrangements enable financial criticism to be exercised with more intimate knowledge and at an earlier stage, and also that work has been facilitated by the substitution to an appreciable extent of personal consultation for written discussion.

7. There was, however, especially at the outset, much preliminary work in overhauling the existing financial arrangements; in improving the methods of watching and reporting upon the progress of expenditure (and in particular of schedule expenditure), and also in improving budget methods; and finally in strengthening the system of local financial control.

8. The first steps in each of these directions were taken almost immediately after the constitution of the branch, and in most cases the main lines had been laid down by the end of 1906-07, though a considerable time elapsed in the elaboration of the final proposals, and it was not until much later that some of the changes dealt with in this summary became fully effective. It is convenient therefore to deal with the work of the four years in one combined narrative.

Reorganisation of the Military Accounts Department.

9. One of the first steps taken after the constitution of the Military Finance Branch and the transfer of the Military Accounts Department to civil control, was to institute an investigation into the whole system of military accounts organisation. With this object Mr. O. T. Barrow, C.S.I., Comptroller-General, was placed on special duty in November 1905, to inspect the military account offices and to report on the arrangements in force with a view to their improvement where necessary. His proposals regarding the superior and the clerical establishments respectively were communicated to the Secretary of State with the Government of India's recommendations in the latter's Financial despatches No. 40-M.F., dated the 30th May 1907, and No. 2-M.F., dated the 9th January 1908, and the schemes of reorganisation proposed ultimately came into effect from the 1st April 1908. The main features of the changes introduced in regard to the organisation of audit work and the consequent distribution of the superior establishment were (*a*) the separation of departmental supply work, such as the accounts of the Ordnance, Medical Stores, Clothing and Remount departments, and the auditing of railway charges, from the ordinary business of account and audit, relating to Pay and Supply and transport, which arises in the course of divisional administration; the transfer of the former classes of expenditure to the audit of a new Controllership for Military Supply located at Calcutta; and the organisation of the audit of Pay and Supply and Transport and other divisional charges on a divisional basis. The latter arrangements brought the system of accounts into line with the administrative organisation, which had been re-modelled in June 1907 by the abolition of the three Commands and the devolution of all administrative authority to General Officers Commanding Divisions and Independent Brigades, who then received the financial powers formerly exercised by Lieutenant-Generals Commanding. As part of the corresponding change in the organisation of audit, it was provided that the whole of the accounts work of a division should be audited by the same accounts officer, in lieu of the arrangements previously existing under which the pay work of all the divisions in the same command was

entrusted to one accounts officer and the Supply and Transport work to another. The Divisional General is thus brought into association with a single accounts officer as regards all the expenditure for which he is personally responsible, and the location of these divisional accounts officers, who have been designated Deputy Controllers, at the head-quarters station of each division, has been, with one exception, carried into effect. The divisional accounts officer is thus able to discharge effectively the duty which has been placed upon him, in connection with this scheme of reorganisation, of supplying financial advice as well as of exercising audit control.

10 Under the same scheme the appointment of Controller of the Madras Circle has been replaced by two independent Deputy Controllerships, the incumbents of which are in charge respectively of the Secunderabad and Burma Divisions. The remaining three Controllerships (Northern, Eastern and Western) are still retained for the supervision of the work of the remaining eight divisional account officers, and the area under their control remains unchanged, though in consequence of the abolition of Commands it is now described as a Circle instead of as a Command.

11. The clerical establishments were redistributed in conformity with the foregoing changes in organisation. The other leading features of the scheme relating to office establishments were a moderate enhancement of pay and assimilation as far as practicable of the scales of pay in force in offices serving under similar conditions; an addition to the working strength of the department; and the provision of additional clerks to form a leave reserve and a further reserve for clerks in training; the net total cost of these measures being estimated at Rs. 1,95,141 a year.

12 On the 1st June 1908, an experimental trial of the Home (Dover) system of paying British troops was commenced in two Divisions. Under this system units are relieved of the task of keeping technical and complicated accounts. The Battery, Squadron, or Company Commander is only required to maintain simple accounts of his cash issues and receipts, and to send these periodically to a central disbursing office manned by trained account officers and establishments, by whom all the required accounts are prepared. These disbursing offices have also undertaken the compilation of all account transactions and payments on behalf of the Supply and Transport Corps. The experiment was successful in all respects, as it was found that, while it relieved units and the Supply and Transport Corps of much of their previous account work, it facilitated audit and produced a considerable saving by enabling reductions to be made in the regimental and Supply and Transport account establishments. The system has therefore been extended to all Divisions. A further extension of this system to cover all local payments is now under consideration.

13. The question of the future recruitment of the superior staff of the Military Accounts Department, adverted to in paragraph 3, was finally decided in 1908-09. The original recommendation to the Secretary of State was that the Department should continue to be manned entirely by officers of the Army, but this was negatived by the Secretary of State, who desired a certain number of civilians to be introduced into the Department as a tentative arrangement. The Government of India then proposed to recruit military officers and civilians alternately, but this was also negatived by the Secretary of State. Finally the Secretary of State agreed to five military

officers being appointed in 1909-10 to meet immediate requirements, but thereafter civilians only have been recruited, and serve under practically the same conditions of pay, leave, etc., as apply to the civil officers of the Indian Finance Department.

Introduction of system of Divisional Budgets.

14. With the abolition of commands and the institution of a divisional system both of administration and of accounts it also became necessary to frame separate budgets for each independent spending authority, *i.e.*, for General Officers Commanding Divisions and Independent Brigades, and this change was brought into effect from the 1st April 1908.

Revision of the system of Classification of Army Receipts and Charges

15. An essential preliminary to the enforcement of the financial responsibility of administrative authorities is that the system of accounts should be readily intelligible by the spending authorities for whose guidance it is intended. This requirement was not satisfied by the system which was in force at the time when the reorganisation of Army Head Quarters administration took effect. The accepted general principle governing the incidence of charges is that a closer reference should be maintained to the department in which expenditure occurs than to the object of the expenditure or the ground upon which it is sanctioned. In opposition to this the principle followed previously in the military classification, so far as it conformed to any definable system, was to bring together charges which were or seemed to be of a cognate nature, without regard to the departments in which the charges were incurred. Thus the same grants included charges controlled by different administrative authorities and audited by different account officers, and conversely the whole body of charges for which the same authority was responsible was split up among many different grants. It was thus impossible for the officer concerned readily to ascertain the progress of his expenditure as compared with budget provision, or to scrutinise it with the object of watching and checking a tendency to unduly rapid increase.

16. The question was taken up in 1906, and an officer was placed on special duty to readjust the whole system. The new classification as finally approved came into effect from the 1st April 1908. The budgets for 1908 09 were necessarily drawn up in the first instance on the old system, with the object of obtaining the guidance afforded by the figures of previous years, but were at once recast so as to conform to the new classification, and in this form were placed in the hands of the local authorities, who were also supplied for the first time with the classification hand book, which will enable disbursing officers to see at a glance how their expenditure will be compiled. During 1908-09 it was decided to carry this classification further by subdividing the expenditure audited in each Division into (*a*) that which is solely under the control of the Divisional Commander, and (*b*) that which is controlled by central authority. This change was introduced with the budget for 1909-10.

17. The measure just mentioned may be regarded as the last of a series of steps by which the close association established between finance and administration at head-quarters has been reproduced in the case of the local administrative and account authorities. Each General Officer Commanding a Division or Independent Brigade has now a separate budget; the whole of his expenditure is audited by a single divisional officer; that officer is also constituted his financial adviser: and he is supplied with accounts and returns which enable him readily to follow the course of expenditure for which he is responsible. In announcing the introduction of the new system,

the opportunity was taken of indicating to the local authorities their financial responsibilities and how they should be discharged. It was impressed upon the Divisional and Independent Brigade Commanders that they would in future be held responsible for economy, for effective supervision over the progress of expenditure, and for the regulation within assigned limits of new expenditure. They were instructed that frequent reviews of the existing standards of expenditure were necessary, and that constant watchfulness was essential to check waste and provide for unavoidable excess or new expenditure.

Departmental accounts.

18. The systems of accounts in ordnance factories, medical store depôts and marine establishments have also been reconsidered during this period, and considerable progress made towards their improvement. The preparation of the manufacture accounts has now been removed from the ordnance factories and placed in the hands of a special accounts establishment, supervised by two expert accounts officers recruited from England and attached to the office of the Inspector General of Ordnance Factories. An expert auditor has also been obtained from England for two years to place the final audit of these factory accounts on a satisfactory basis. A new system of accounts for medical store depôts has been devised, and is now under experimental trial in one depôt. The accounts arrangements in the marine dockyards have been revised, the former independent examiner of marine accounts has been abolished, and an accountant has been attached to each dockyard for the primary accounting, while the audit has been transferred to the Controller of Military Supply Accounts. The future control of Military Works accounts, and a revised system of accounts for grass and dairy farms recently proposed by a special committee, are now under consideration. Generally all store and manufacturing accounts of the army have been reconsidered in the past four years.

Schedule expenditure.

19. The year 1908-09 witnessed the close of a prolonged era of special military activity in improving the efficiency of the army for war, and the financial history of this period may be given. This activity commenced in 1900-01, and may be divided into two periods (1) from 1900-01 to 1904-05, and (2) from 1904-05 to 1908-09. From 1899-1900 onwards it has been the practice of the Government of India to deal specially with the more important proposals for new expenditure. Up to the year 1904-05, measures costing not more than Rs. 20,000 under the Army and Marine heads, or Rs. 50,000 under the Military Works head, were financed by reappropriation or from budget provision in the ordinary way. But proposals for expenditure exceeding the above limits were considered collectively in an annual schedule, an allotment of funds for this special military expenditure was fixed according to the revenue available, and the accepted programme was then sent to the Secretary of State. Extraordinary savings arising in any year were also often diverted to financing these proposals. Each item as completed dropped out of the schedule, which included only the new expenditure of the year in question, *i.e.*, the initial expenditure *plus* the increase of recurring expenditure over the standard previously attained. No separate accounts were maintained of the sums actually spent on these schemes. Each schedule was in fact an independent programme framed to meet immediate requirements, and no definite scheme of continuous progress was laid down. In 1899-1900 the allotment for special expenditure only amounted to £355,000. Between 1900-01 and 1904-05 the following allotments were

given either in the budget or by the diversion of extraordinary savings as above explained :—

	£
1900-1901	1,109,000
1901-1902	1,572,000
1902-1903	1,497,000
1903-1904	1,417,000
1904-1905	1,567,000
TOTAL	7,162,000
AVERAGE	1,432,400

In the absence of separate accounts the actual expenditure incurred in this period cannot be stated.

20. In 1904-05 Lord Kitchener's comprehensive scheme for the reorganisation and redistribution of the Army was formulated and accepted. That scheme originally contemplated an expenditure of 13 crores, of which 10 crores would be initial and 3 crores would be spent on recurring liabilities arising during the period of completion of the programme. It was anticipated that the eventual result would be a permanent increase in recurring expenditure of 2 crores a year. In addition it was estimated that other items of special expenditure during the progress of the above scheme would require 3 crores. It was intended to meet these demands by an allotment of 1 crore in 1904-05, and thereafter by a special grant of 3 crores annually for 5 years. Subsequently it was decided that the expenditure connected with the provision of quick firing guns for the horse and field artillery should be included in this Special Grant, and 75 lakhs provided for this purpose in the ordinary estimates of 1904-05 were transferred to the Special Grant; also that ordinary Military Works measures exceeding Rs. 50,000 in cost should be financed from the same grant, an annual increase of 25 lakhs being authorized on this account. Thus the total special expenditure contemplated between 1904-05 and 1909-10 amounted to £12,000,000, of which it was understood that £1,166,666 would be incurred in 1904-05 and the balance in 5 annual instalments thereafter of £2,166,667, any lapses in one year being regranted within certain limits in the following year. In practice, however, it was found impossible to carry through the whole of the expenditure for which funds were allotted; and the original scheme was definitely departed from in 1907-08 when the Secretary of State directed that the grant for that year should be reduced to £1,666,667, and again in 1908-09 as the result of his decision that no further regrants of lapses should be given; and, as will be shown later, the entire financial arrangements were ultimately reconsidered.

21. The actual allotments and expenditure from the Special Grant are given below :—

Year.	Allotments.			Actual expenditure.	Remarks.
	Ordinary allotment.	Lapses regranted.	Total.		
	£	£	£	£	
1904-05	1,538,333	...	1,538,333	1,099,666	
1905-06	(a) 2,933,333	333,333	3,266,666	2,026,200	(a) Grant of £2,166,667 specially increased by £100,000 for a new R. I. M. vessel, and by £666,666 for quick-firing guns.
1906-07	2,166,667	600,000	2,766,667	2,389,306	
1907-08	1,666,667	316,666	1,983,333	1,448,200	
1908-09	1,666,667	...	1,666,667	1,269,877	
TOTAL	9,971,667	1,249,999	11,221,666	8,233,249	

Year.	Allotments.			Anticipated actuals	Remarks.
	Ordinary allotment.	Lapses regranted.	Total.		
	£	£	£	£	
1909-10	474,900	..	474,900	499,400	
1910-11	482,760	..	482,760	482,760	
Add for transfers to ordinary estimates (*b*)					(*b*) Represents recurring expenditure on completed Schedule measures transferred to the Ordinary estimates in 1909-10, and the recurring expenditure attained on Schedule measures in progress similarly transferred in 1910-11 added thereto, under the revised Schedule system.
1909-10	670,701	..	670 701	670,701	
1910-11	811,496	..	811496	811,496	
Total .	2,439,857	..	2,439,857	2,464,357	
GRAND TOTAL .	12,411,524	1,249,999	13,661,523	10,697,606	

It will be observed that the foregoing table deals with the expenditure of seven years, the first two years of this period belonging to the Viceroyalty of Lord Curzon, and the last five of them to that of Lord Minto; but it is considered that the value of the figures will be enhanced by the longer period taken, which enables the account of the special measures of reorganisation and redistribution to be brought up to date from the year of their inception. There is also a dividing line between 1908-09 and 1909-10. The former year was not only the last complete year of Lord Kitchener's tenure of the appointment of Commander-in-Chief, but also the last year in which the system of a Special Grant (using that term in the special sense explained in paragraph 20) was in full force. The schemes of reorganisation and redistribution, with other important measures, continued in 1909-10 and 1910-11 to be financed by an allotment which was granted specially for that purpose, but the amount of this allotment was no longer predetermined by the accepted necessity of carrying out a particular programme in a given time, but by ordinary financial considerations similar to those which determine the magnitude of the military grants as a whole.

22. In the debate on the Budget of 1909-10, Lord Kitchener reviewed the operations of the Special Grant up to the end of 1908-09. He then indicated that his own scheme for the improvement of the army for war had accounted for £3,688,400 only, as compared with the £6,800,000 contemplated. Recurring expenditure had absorbed £771,000 of the above sum, and the balance of £2,917,400 had been expended on the following items :—

	£
Purchase of land and erection of new buildings . .	958,400
Ammunition Columns and other units added to the Army .	117,100
Increase of the reserve of artillery ammunition . .	327,100
Increase of the reserve of small arms ammunition . .	478,300
Increase of the reserve of rifles and machine guns . .	197,800
Increase of horses, mules and transport	399,100
Increase of field and general hospitals and medical equipment	89,400
Increase of veterinary field hospitals and equipment .	18,300
Increase of mobilisation equipment including small arms ammunition columns	305,500
Addition of 350 officers to the Indian Army . . .	8,200
Minor items	18,200

23. The items of special expenditure unconnected with the above scheme, included in the accounts of the Special Grant to the end of 1908-09, amounted to £4,527,600 as compared with the £2,766,667 contemplated. This included £932,500 cumulative recurring expenditure, and the balance of £3,595,100 had been expended on the following items :—

	£
Rearming the horse and field artillery	1,750,000
Coast defences	432,000
Royal Indian Marine ships	295,000
Buildings and lines	611,000
Staff College, Quetta	57,000
Electrical installations in barracks	44,000
Dairy and grass farms	80,000
Remount depôts and horse breeding operations	55,000
Buildings and ranges for Volunteers	20,000
Ordnance machinery and stores	200,000
Medical stores	45,000
Minor items	6,100

24. In regard to the burden laid by the above groups of measures on future estimates, it was calculated that the increase in recurrring expenditure amounted at the end of 1908-09 to £655,100 a year, of which £271,400 were attributable to the scheme for the improvement of the army for war; and the balance of £383,700 to other requirements, many of which are such as in any modern army are constantly arising and must eventually be met, and are only "special" in the sense that the cost of each individual measure exceeds the comparatively low limits (Rs. 20,000 or Rs. 50,000) mentioned in paragraph 19.

25. In regard to the anticipated expenditure in 1909-10 and 1910-11 amounting to £2,464,357, the cumulative recurring expenditure on Schedule measures accounts for £1,655,691, the anticipated initial expenditure being £808,666 only. Of these amounts the scheme for the improvement of the army for war absorbs £734,144 of the cumulative recurring and £180,337 of the initial expenditure, and the other measures £921,547 cumulative recurring and £628,329 of the initial expenditure. It is now anticipated that by the end of 1910-11 the recurring burden due to the Schedule measures undertaken from 1904-05 will amount to £868,576 a year. On the other hand many counterbalancing savings effected during this period have been credited to the ordinary estimates.

26. During 1908-09 the Secretary of State directed that, in view of the Convention concluded between Great Britain and Russia and its bearing upon our military policy, the military expenditure, and more particularly the contemplated special expenditure in India, should be reviewed and reduced if possible. In reply the Secretary of State was informed that while the Government of India were unable to offer reductions on a large scale, they were prepared to agree to a material extension of the period within which it was originally intended to complete the programme of special expenditure in hand, to surrender the special grant, and in future to restrict the special expenditure of any year to the allotment that might be determined after a consideration of the volume of work already in hand, the urgency of the remaining schemes and of competing demands on other sides of the administration, and of the total revenue likely to be available. The proposed surrender of the Special Grant was accepted by the Secretary of

State, and the programmes of special expenditure were accordingly restricted in 1909-10 to £474,900, and in 1910-11 to £482,760, exclusive of past recurring expenditure partially in the former and wholly in the latter year.

27. Lists were prepared in 1909 and sent to the Secretary of State showing, in connection with the abandonment of the Special Grant, (1) what measures had been wholly or practically completed therefrom, (2) the measures in progress or not begun which it was desired to carry to completion as funds become available, and (3) the measures abandoned or indefinitely deferred. The programme measures yet to be completed were then estimated to cost £2,693,072 initial, and to involve an eventual addition of £906,302 to the recurring military charges, while those abandoned or deferred were estimated to cost £1,603,254 initial, and £190,289 recurring.

28. Prior to 1904-05, there was no regular system for distinguishing expenditure incurred on important military measures from ordinary military charges. Separate provision was made for such measures in the budget of the year but no attempt was made to keep a separate account of the sums actually spent; savings in other parts of the budget were frequently applied to expenditure of a kind similar to that included in the special list; and no attempt was made to estimate the gradually accumulating cost of a continuous programme of extraordinary effort, as the recurring special expenditure incurred in each year merged in the ordinary charges in the year following. When the Special Grant was established in 1905 in connection with Lord Kitchener's scheme of "Reorganisation and Redistribution," it was decided to distinguish the actual expenditure incurred on measures included in those two programmes from the regular accounts, but the arrangements made were found to be unsatisfactory and even misleading, and the system introduced at the outset did not cover expenditure on numerous important measures not actually included in those programmes. The whole arrangements were accordingly systematised under orders which issued from the late Military Department in its letter No. 324-F., dated the 26th January 1906. Under these orders the "reorganisation" sub-head was discontinued in the accounts, and a separate compilation was instituted shewing all expenditure against the Special Grant on measures included in the "Reorganisation" and Redistribution and Special Defence programmes, and on other measures the cost of which exceeded Rs. 20,000 in the case of Army and Marine expenditure, and Rs. 50,000 in the case of Military Works expenditure. The amount of expenditure incurred was to be determined by the marking of vouchers appertaining to measures of the classes described, and was to be checked by a comparison of the figures supplied by administrative and account officers. Monthly progress reports were also to be submitted as well as forecasts of the anticipated expenditure of the year, the latter being required for budget purposes. An estimate was also made and submitted to the Secretary of State in the Government of India's despatch No. 76, dated the 30th August 1906, shewing all expenditure incurred up to date on Lord Kitchener's scheme for the preparation of the army for war, the figures for 1904-05 and 1905-06 being calculated, in the absence of exact accounts, on such data as were available. This estimate was carried up to date under the Secretary of State's orders by revised statements submitted with the Government of India's despatch No. 9-M.F., dated the 6th February 1908, and similar statements were later on prepared for schedule measures not included in the Reorganisation and

Redistribution programmes. These statements have been brought up to date in each subsequent year. So far, therefore, as was practicable a complete record has been kept of all commitments in respect of new expenditure of any importance since the year 1904-05, and the Government of India are thus in a position to gauge the demand on Indian revenues entailed by the special efforts which have been made in recent years for the preparation of the army for war, while at the same time the separation, to this extent, of extraordinary expenditure from the charges connected with the normal requirements of the army, has been of great assistance, during the period of unusually heavy outlay, in regard to budget operations and in the control of the growth of ordinary military expenditure.

29. It must be admitted, however, that the attempt to record the expenditure actually incurred on each measure was not completely successful. In the case of many measures, *e.g.*, those which involve the increase of an existing unit, the true additional expenditure cannot be distinguished by ordinary account methods, and it is only possible to work on the basis of estimates. To narrow the unavoidable margin of error these estimates were closely scrutinized at the outset and periodically reconsidered. The figures obtained were not, however, altogether reliable. Now that a large part of the programmes of expenditure has been carried out and the Special Grant has been abolished, it is considered that the increased accuracy obtained by the marking of vouchers and other features of the above procedure would not repay the heavy labour thrown upon accounts and executive officers, and it has been proposed to the Secretary of State that, except in the case of expenditure on buildings and fortifications and items of a special character, the calculation of the sum spent on important measures should in future be based upon estimates framed with reference to the ascertained progress of work, the marking of vouchers and periodical reports of the actual expenditure being discontinued. A reply has just been received in which the Secretary of State requires the continuance of the former account system, wherever this is feasible. This is now under consideration.

His Lordship has, however, approved of measures being transferred from the schedule to the ordinary estimates on being completed, and also of all past recurring expenditure being excluded from future schedules, which will hereafter deal only with the initial expenditure and the new recurring expenditure contemplated in the year in question.

Financial powers: military expenditure.

30. In 1908-09 the Secretary of State passed final orders on the question of defining in detail the financial powers vested in the Government of India, and the classes of proposals which should be referred for his sanction. In respect of military expenditure the Government of India were empowered to sanction new appointments, increases of salary, and revisions of establishments, within the limits applying to civil expenditure; but in other directions the Secretary of State intimated that he desired to exercise closer control over military expenditure. He accordingly restricted the sanctioning powers of the Government of India in respect of Military Works projects to those not exceeding 1½ lakhs in cost, as compared with 12½ lakhs, the civil and the previous military limit. His Lordship also approved of a uniform rule being introduced for determining the classification of projects as "Special" or "Ordinary." Under this rule all measures of which the total initial cost *plus* one year's recurring expenditure is estimated to exceed Rs. 50,000 must

be treated as "Special"; all other measures may be financed from the ordinary budget. It was also prescribed that all items of special expenditure as thus defined must be submitted to the Secretary of State in an annual schedule, and that no expenditure is to be incurred on such items without his previous sanction, unless they are otherwise within the powers of the Government of India and the necessary funds can be provided from savings or lapses without causing the provision for special expenditure in the year to be exceeded. Power was given to the Government of India to vary the allocation of the total allowance for special expenditure between the different measures included in the schedule, or to apply a portion of this allotment to the prosecution of any measures which are included in the schedule without any provision of funds.

Ordinary expenditure.

31. In regard to ordinary expenditure the principal improvements effected have been, as stated above, those connected with the general system of accounts, the arrangements for watching the progress of expenditure, and the preparation of the military budget. With this object Heads of Departments and General Officers Commanding are supplied both with returns of actual expenditure and a separate abstract indicating any divergence between actuals and the budget proportion. The proportion of the budget grant assumed for this purpose as likely to be spent in any month was formerly calculated at $\frac{1}{12}$ of the total year's allotment, a hypothesis which, in the case of many classes of expenditure, is misleading and deprives the intended comparison of much of its value. This defect has now been remedied by the introduction of the system obtaining in the Civil Departments under which the total grant for the year is distributed over the several months in proportion to actual expenditure in the past. The preparation of the budget has been simplified by enlisting the co-operation of administrative authorities to a larger extent; and by measures to secure the more accurate preparation of the revised estimates which form the ground-work of the budget for the coming year.

32. The progress of ordinary expenditure was fully dealt with in the Government of India's (Secret) despatch No. 65, dated the 2nd July 1908, in which it was shown that in recent years the normal growth had been £250,000 a year. In 1908-09 the Secretary of State decided, on the report of the Romer Committee which investigated the capitation rate paid by India to the Imperial Government for the raising and training of British officers and soldiers for India, that the former capitation rate of £7-10-0 a year per officer and soldier of the sanctioned establishment of British troops in India should be raised to £11-8-0 from the 1st May 1908, a change which involved an extra charge of £300,000 a year. The Government of India strongly protested against this charge but without avail. From the 1st January 1909 the emoluments of Captains and Lieutenants of the Indian Army were increased, and an addition was also made to the pay of the Indian soldier generally, the total cost of these two measures being £426,667 a year. Thus in 1908-09 a permanent extra charge of £726,667 was placed upon the military estimates. A further serious feature has been the continuous growth of feeding charges, including compensation for dearness of food and fodder. In 1905-06 the expenditure on this account was £1,396,600, in 1906-07 £1,602,300, in 1907-08 £1,659,900, in 1908-09 £2,047,100, in 1909-10 £1,827,400, and the budget provision in 1910-11 has been fixed at £1,807,100, in anticipation of more favourable prices. On the other hand certain economies effected during the latter years of Lord Kitchener's term of office resulted in a reduction of

ordinary expenditure by about £320,000 a year. The ordinary expenditure in the last year of the previous Viceroyalty and in the five years under review is given below :—

Year.	46—Army.			46A.—Marine.			47.—Military Works.			Total Net Expend-iture.
	Gross Expend-iture	Receipts.	Net Expend-iture.	Gross Expend-iture	Receipts.	Net Expend-iture.	Gross Expend-iture.	Receipts.	Net Expend-iture.	
	£	£	£	£	£	£	£	£	£	£
1905-03 . . .	17,912,530	1,189,696	16,722,834	478,937	143,770	335,167	641,772	49,306	592,466	17,650,467
1906-07 . . .	18,048,336	1,217,569	16,830,767	506,902	148,175	358,727	641,515	50,999	590,516	17,780,010
1907-08 . . .	17,861,420	1,022,479	16,838,941	422,157	87,686	334,471	684,010	57,268	626,742	17,800,154
1908-09 . . .	18,244,896	862,939	17,381,957	455,956	125,448	330,508	679,900	59,254	620,646	18,333,111
1909-10 (a) (Revised)	18,053,584	937,300	17,116,284	461,882	77,200	384,682	632,033	70,000	562,033	18,062,999
1910-11 (a) (Budget).	18,449,669	1,009,400	17,440,269	460,252	74,700	385,552	649,723	63,300	586,423	18,412,244

(a) The figures for 1909-10 and 1910-11 exclude £670,701 and £811,496 respectively shown in the budget statements as ordinary expenditure but representing the recurring expenditure on Schedule measures transferred to the ordinary estimates in those years under the new Schedule system, vide paragraph 21

Thus the net increase in ordinary military expenditure between 1905-06 and 1910-11 amounts to £761,777. But the provision for special services,* etc., dependent entirely upon the special circumstances arising in a particular year, amounts in 1910-11 to £180,833 only, as compared with an actual expenditure of £216,174 in 1905-06. This raises the increase requiring explanation to £797,118. As noted previously the extra pay and capitation charges accepted in 1908-09 cost £726,667, while the cost of feeding the army has increased by £410,500, a total of £1,137,167. So that, apart from these two items, there has been a net decrease of ordinary military expenditure to the extent of £340,049 in the six years under review, an average decrease of £56,675 a year. Normal tendencies are mainly of course in the contrary direction. The increase of equipment, animals, and personnel, the direct expenditure on which is treated in this review as "special," brings in its train a number of incidental charges falling upon the ordinary estimates; pension charges in particular are steadily growing; the cost of military material is also advancing; and in many directions a more exacting standard of military administration leads to demands for additional establishments. At the same time it has been recognised throughout the period under review that the heavy extraordinary expenditure on the preparation of the army for war must involve an obligation to keep down the ordinary charges to a minimum; and throughout this period it has been the aim of Lord Minto's Government, and of each Commander-in-Chief, to find, by reductions in the established scale of ordinary expenditure, some substantial set-off to this unusual outlay. The degree of success attained in this effort may be gauged by the figures given above. It is permissible to assume that the new system of financial control has in some degree contributed to these results.

* The provision in 1910-11 consists of £173 500 for the arms traffic operations, and £7,333 for the Tibet Mission. The expenditure in 1905-06 consisted of £111,133 for the military arrangements connected with the visit of His Royal Highness the Prince of Wales, £44,741 for the Aden Delimitation Commission, £36,935 for the Tibet Mission, £16,000 on account of the earthquake at Dharmsala, and £7,365 for the Seistan Commission.

Part II.—DEPARTMENTAL HISTORY.

CHAPTER I.

Introductory.

The Members of Council responsible for the administration of the Finance Department during the period under review were the Hon'ble Sir Edward Norman Baker, K.C.S.I., the Hon'ble Mr. J. S. Meston, C.S.I., (temporary), and the Hon'ble Sir Guy Fleetwood Wilson, K.C.B., K.C.M.G. The other principal apointments connected with the Department were held by the following officers :—

SECRETARY.

Substantive—

Sir William Stevenson Meyer, K.C.I.E.	February 1905 to October 1909.
Mr. J. S. Meston, C.S.I.	Since November 1909.

In actual charge—

Mr. W. S. Meyer, C.I.E.	February 1905 to March 1906.
Mr. O. T. Barrow, C.S.I.	April 1906 to June 1906.
Mr. J. S. Meston, C.S.I.	July 1906 to June 1908.
Mr. J. B. Brunyate, C.I.E.	July 1908 to September 1908.
Mr. W. Maxwell	October 1908.
Mr. J. S. Meston, C.S.I.	November 1908 to March 1909.
Mr. F. C. Harrison, C.S.I.	April 1909.
Sir William Stevenson Meyer, K.C.I.E.	April 1909 to October 1909.
Mr. J. S. Meston, C.S.I.	Since November 1909.

JOINT SECRETARY.

Military Finance Branch.

Substantive—

Vacant	April 1906 to March 1907.
Mr. J. S. Meston, C.S.I.	April 1907 to October 1909.
Mr. J. B. Brunyate, C.I.E.	Since November 1909.

In actual charge—

Mr. W. S. Meyer, C.I.E.	April 1906 to March 1907.
Mr. J. B. Brunyate	April 1907 to June 1908.
Mr. R. A. Mant	July 1908 to October 1909.
Mr. J. B. Brunyate, C.I.E.	Since November 1909.

DEPUTY SECRETARY.

Substantive—

Mr. R. A. Mant	January 1905 to May 1905.
Vacant	June 1905.
Mr. J. B. Brunyate	July 1905 to June 1908.
Vacant	July 1908 to October 1909.
Mr. W. M. Hailey	Since November 1909.

IN ACTUAL CHARGE—

MR. R. A. MANT	January 1905 to May 1905.
Vacant	June 1905.
MR. J. B. BRUNYATE . . .	July 1905 to March 1906.
MR. H. WHEELER	April 1906 to June 1906.
MR. J. B. BRUNYATE . . .	July 1906 to March 1907.
MR. H. WHEELER	April 1907 to October 1907
MR. R. A. MANT	November 1907 to June 1908.
MR. W. M. HAILEY	July 1908 to March 1910
MR. H. N. HESELTINE	April 1910.
MR. W. M. HAILEY	Since May 1910.

COMPTROLLER GENERAL.

SUBSTANTIVE—

MR. A. F. COX	January 1905 to September 1906.
MR. O. T. BARROW, C.S.I. . . .	October 1906 to June 1910.
MR. R. W. GILLAN, B.A., LL.B. (Bar-at-law).	Since July 1910.

IN ACTUAL CHARGE—

MR. A. F. COX, C.S.I.	January 1905 to March 1906.
MR. J. C. E. BRAYSON	April 1906 to August 1906.
MR. O. T. BARROW, C.S.I. . . .	September 1906 to May 1907.
MR. L. E. PRITCHARD	May and June 1907.
MR. O. T. BARROW, C.S.I. . . .	June 1907 to August 1908.
MR. F. C. HARRISON . . .	September 1908 to March 1909.
MR. J. A. ROBERTSON	April 1909.
MR. F. C. HARRISON, C S I. . . .	May 1909 to October 1909.
MR. O T. BARROW, C S I. . . .	November 1909 to June 1910.
MR. R. W. GILLAN, B A., LL B. (Bar-at-law).	Since July 1910.

INSPECTOR GENERAL OF EXCISE AND SALT.

SIR RICHARD MORRIS DANE, K.C.I.E.,	October 1907 to March 1909.
Vacant	April 1909 to November 1909.
MR. C. G. TODHUNTER	Since December 1909.

COMMISSIONER, NORTHERN INDIA SALT REVENUE.

SIR RICHARD MORRIS DANE, K.C.I.E. . .	January 1905 to August 1905.
Mr. R. A. GAMBLE (offg.)	September 1905 to November 1906.
SIR RICHARD MORRIS DANE, K.C.I.E. . .	December 1906 to October 1907.
MR. R. A. GAMBLE	Since November 1907.

CHAPTER II.

COINAGE.

Amendment of the Coinage Act—The Indian Coinage Act, XXIII of 1870, had been twice amended in connection with the establishment of the gold standard and certain further amendments had since become desirable. These were embodied in an amending and consolidating Act (III of 1906) which was passed on the 2nd March 1906. This provided, *inter alia*, for the substitution of bronze for copper coinage, and the introduction of a one-anna nickel coin, besides making various other changes in the old Act, the most important being those relating to the method of dealing with diminished, defaced and counterfeit coins.

2. *Protection of the Coinage.*—In October 1906, the orders issued in August 1902 (*vide* Chapter II, paragraph 6, of summary of Lord Curzon's administration), directing that remitting officers should not be credited with the full nominal value of light-weight coins included in their remittances unless they had detected and cut them, were withdrawn, as it appeared that the penalty thus imposed upon treasurers, etc., was unduly severe. The new Coinage Act had also withdrawn from treasury and other officers authorised to cut and break coin the power of cutting coin which had lost between 2 and 6¼ per cent. in weight. It was ordered that all uncut rupees and half-rupees included in remittances which were more than 6¼ per cent. below weight should continue to be credited at one rupee per tola, but that all rupees and half-rupees which had lost more than 2 per cent. but not more than 6¼ per cent. in weight by reasonable wearing should ordinarily be credited at their nominal value.* If however the number of coins of the latter class found in any single remittance exceeds ½ per cent. of the whole, the Comptroller General or the Accountant General, as the case may be, is authorised to exercise his discretion, having regard to the circumstances of each particular case, as to whether the penalty of crediting the excess over ½ per cent. at the rate of one rupee a tola only should be imposed on the remitting treasurer or not. Where the excess is only trifling and the particular treasury concerned is not a constant offender, the penalty may be remitted, but where these conditions do not exist it will ordinarily be enforced. It was also directed that care should be taken to secure that large numbers of coins were not wrongly rejected at any receiving office, and that, when such action was suspected, parcels of the rejected light-weight coins should be sent to the Mint for inspection.

3. Rules† were issued in March 1907, to give effect to the provisions of the new Coinage Act in respect of diminished, defaced and counterfeit coins. The limits of loss in weight within which light weight coins were to be received at full nominal value or at a proportionate valuation, and the rates to be offered in the latter case, remained the same as in the old rules in the case of rupees and half-rupees. In the case of quarter and eighth-rupees it was definitely laid down for the first time that coins which had lost more than 25 per cent. in weight were to be rejected. The number of persons authorised to cut counterfeit coins was also largely increased, some private banks and firms being entrusted with this authority.

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* Government of India, Finance Department, No. 5565 A., dated the 3rd October 1906

† Government of India, Finance Department, Notification No. 1448-A., dated the 8th March 1907.

4. In June 1910, the rules of 1907 were amended* in respect of half-rupees. The limit of loss of weight up to which these coins were to be received at full nominal value was raised from 6¼ to 12½ per cent., and a fixed rate of 6 annas was prescribed for the receipt of half-rupees which had been so diminished in weight as to be more than 12½ per cent. but not more than 25 per cent. below standard. At about the same time it was decided to withdraw gradually from circulation small silver coins which had been struck before the year 1862 or on which the device was obliterated through age, and strict injunctions were issued to Treasury and Currency offices prohibiting the re-issue of all such coins.

5. *Bronze and Nickel Coinage.*—The new bronze coins were first issued† on the 1st August 1906, from which date the coinage of copper ceased. The bronze coins are of the same diameter and design as the copper coins which they superseded, but their weight is less by 25 per cent.; *e.g.*, the copper pice weighed 100 grains, whereas the weight of the bronze pice is 75. This reduction in weight is estimated to effect a saving of about £550 per lakh on the face value of the coins issued.

6. The issue of the new nickel one-anna piece was somewhat delayed owing to the time occupied in deciding the composition and design of the coins. It was originally contemplated that the coin should be struck from "commercially pure" nickel. The question was, however, raised whether a cupro-nickel alloy, such as is used in the United States of America and several European countries, does not possess germicidal properties which would make it more appropriate in this country, and after somewhat prolonged experiments, both here and in England, it was decided that the balance of advantage lay in favour of employing an alloy containing 75 per cent. copper and 25 per cent. nickel. The question of the design also presented much difficulty. It had at first been intended to produce a coin with a central perforation. This was, however, open to the objection that it could not bear the King's effigy. On the other hand, a coin with an eccentric perforation is extremely troublesome and expensive to strike. It was ultimately decided that the coin should have a waved edge with 12 scollops, the greatest diameter being 21 millimetres and the least diameter 19.8 millimetres, and that the rim should not be milled.‡ The first batch of the new coins was ready about the middle of July and from the 1st of August supplies were made available to the public at the larger treasuries. The earlier issues were found to be somewhat brittle, but this difficulty has been overcome by the addition of a small quantity of manganese to the cupro-nickel alloy.

7. Despite certain malevolent rumours which caused temporary alarm in Madras and Rangoon, the nickel anna appears to have achieved a large measure of popularity and there is a prospect of its displacing the bronze currency to some extent. The desirability of striking a half-anna nickel was considered in 1908-09, but after consultation with Local Governments it was decided not to take action in this direction until the people had become thoroughly familiar with the one-anna coin.

8. *The Mints.*—As was indicated in Part I of this summary, a very heavy strain was thrown on both mints by the excessive demand for rupees

* Government of India (Notification) (Finance) No. 3172-A., dated the 18th June 1910
† Government of India Notification (Finance), No. 3895-A., dated the 11th July 1906
‡ Government of India Despatch (Finance), No. 450, dated the 13th December 1906.
Telegram from the Secretary of State, dated the 22nd January 1907.
Government of India Notification (Finance), No. 4597-A., dated the 23rd July 1907.

during the busy season in the earlier years of the period; the increase in their work appears clearly from the figures given in the margin, which show the gross outturn of rupees at the two mints during the last eight years. The measures taken to expand the manufacturing power of the mints have already been detailed in Part I of the summary.

	Lakhs.
1902-1903	11,27
1903 1904	16,17
1904 1905	10,88
1905 1906	19,60
1906 1907	25,37
1907-1908	17,33
1908 1909	2,51
1909-1910	2,08

In 1908-09, however, their activity came to a sudden termination, as trade depression reduced the demand for money. From an average annual production of 16¾ crores in the preceding six years the coinage dropped to 2½ crores. This represented entirely recoinage of light weight and withdrawn rupees. During the earlier part of the year the Calcutta Mint was busily engaged on the coinage of bronze, for which there was a great demand in the areas of famine relief. With the closing of relief works the coins began to return from circulation, and the activity of the Mint has for the present ceased. In the Bombay Mint the production of the one-anna nickel was continued, with an output of 23 million pieces in 1908-09 and of 27 million pieces in 1909-10.

9. *Currency reform in Native States.*—On pages 82-84 of the summary of Lord Curzon's administration the progress which had been made towards uniformity of currency throughout India is described. In the period under review three more States elected to adopt the British currency, the conversion being carried out of the Karauli currency (6½ lakhs), of the Mahommad Khani currency in the Sironj Pargana of the Tonk State (3 lakhs) and of the Chitori currency in the Phulia Pargana of the Shahpura Chiefship (½ lakh). In 1907-08, at the instance of the Sailana Durbar, the Government of India agreed to coin for the Durbar, at its cost, bronze pice of the aggregate value of Rs. 3,500, the device on the obverse being identical with that of the British Indian pice and that on the reverse differing only in having the words 'Sailana State,' inscribed in Hindi characters. The coinage was undertaken under the Native Coinage Act (IX) of 1876.

CHAPTER III.

Public Debt and other Financial questions.

1. *Increase of Debt.*—The following figures show the amount added to the permanent debt during the period under review:—

	Sterling. £		Rupee. Rs.
Capital of debt on 1st April 1906	146,457,439		1,26,08,10,618
Capital of debt on 31st July 1910	170,105,911		1,38,34,33,105
Increase .	23,648,472	,	12,26,22,487
			=£8,174,832

Taking into account £6 millions of India bills, which were issued during the period and were undischarged on the 31st October 1910, the total increase in debt in the four years amounted to rather less than £38 millions. This figure includes some £2 millions of undischarged debentures of the Madras Railway, which were taken over as State debt when the line was purchased on the 31st December 1907.

2. *Rate of borrowing.*—It had for many years been found possible to float English sterling loans at 3 per cent. interest. In 1907-8, however, the Secretary of State was obliged, in view of the stringency prevailing in the London money market, to revert to a 3½ per cent. rate of interest for the sterling loan which he desired to raise.

The following table shows the results of the loans issued during the period under review:—

Sterling.

Date of issue.	Rate of interest.	Amount of loan.	Amount tendered.	Average rate of accepted tenders.		
		£	£	£	*s.*	*d.*
23rd May 1906	3 per cent.	2,000,000	4,369,000	94	16	5
6th May 1907	3½ ,, ,,	3,500,000	11,708,000	98	10	0*
10th January 1908 . .	3½ ,, ,,	5,000,000	31,343,000	99	0	0*
8th February 1909 . .	3½ ,, ,,	7,500,000	9,800,000	97	0	0*
6th January 1910 . .	3½ ,, ,,	7,500,000	Underwritten	96	10	0*

Rupee.

		Rs.	Rs.	*Rs.*	*a.*	*p.*
31st July 1906	3½ per cent.	4,50,00,000	10,66,54,000	97	5	7
17th July 1907	3½ ,, ,,	2,50,00,000	5,24,09,000	96	13	11
4th August 1908 . . .	3½ ,, ,,	2,00,00,000	3,18,25,700	95	7	3
28th July 1909	3½ ,, ,,	2,50,00,000	6,85,23,300	93	15	0
20th July 1910	3½ ,, ,,	1,50,00,000	6,94,45,600	96	1	4

* Fixed rates.

India bills for £1,000,000 were issued in October 1907 at an average discount of £4-3-3 per cent., and were renewed in 1908, 1909 and 1910 at average prices of £96-15-0, £97-16-0 and £96-9-3. An issue of £2½ millions at £97-3-10 in June 1908 was renewed in the two following years at rates of £96-18-0 and £96-18-6, respectively. A similar amount advertised in November 1908 was taken up at a discount of £2-18-8, and was replaced in December 1909 by a new issue at an average price of £96-16-2. The full amount of £6 millions was still outstanding on the 31st October 1910.

3. *Discharge of stock notes.*—Notice* was given on the 21st February 1907 that all outstanding stock notes (the balance of which outstanding at the time was Rs. 6,325 only) would be discharged on the 24th August 1908, and that from that date all such notes would cease to bear interest. This measure definitely marked the close of the experiment, which had from the first offered but slender chances of success.

4. *Conversion of 3 per cent. Government paper.*—The easy condition of the money market in 1896 had enabled the Government successfully to float a 3 per cent. loan of four crores of rupees; it was subscribed several times over and was taken up at an average price of 103. The Government at the same time took advantage of the market to convert two pre-existing 3½ per cent. loans. One of these had been raised in 1853-54 and had an outstanding balance on 31st March 1896 of some 4⅔ lakhs only; the other dated from 1893-94, and its amount on the same date was 5⅔ crores. The 3 per cent. loan thus created was further augmented by the issue to the Currency Department of over 2 crores of paper for the investment of a part of the reserve. On 30th September 1908 the loan amounted to a little over 11 crores. Although this loan was raised at a premium of 3 per cent., a period of less than a year from the date of its flotation saw it quoted at 95 in a falling market. With the exception of a temporary recovery in 1899, the 3 per cent. securities steadily declined until they reached 78 or 79. Towards the end of 1908 they fluctuated between 80 and 81, but these quotations were nominal, as sales were often effected with difficulty and only for small amounts.

5. In these circumstances, the Government were approached for the second time by the Chambers of Commerce, as well as by the Bank of Bengal and certain mercantile firms, with a prayer for the conversion of the paper into 3½ per cent. With the sanction of the Secretary of State† the request was granted, and it was decided to offer the following terms‡ :—

(1) Holders of 3 per cent. paper were to receive 3½ per cent. paper equal to six-sevenths of the nominal value.

(2) If, however, the amount tendered for conversion was not an exact multiple of Rs. 700, the tenderer was given the option of receiving—

(*a*) 3½ per cent. notes equivalent to six-sevenths of the nearest lower multiple of Rs. 700, together with the difference in 3 per cent. notes; or

(*b*) 3½ per cent. notes equivalent to six-sevenths of the nearest higher multiple of Rs. 700, on payment in cash of the difference between (*i*) six-sevenths of the face value of

* Government of India Notification (Finance), No. 1706-A., dated the 21st February 1907.
† Despatch No. 276, dated the 10th September 1908, to Secretary of State.
‡ Notification No. 6201A, dated the 3rd November 1908.

the notes tendered, and (*ii*) the face value of the $3\frac{1}{2}$ per cent. notes received in exchange.

The offer still remains open and will not be withdrawn without six months' notice. Up to the end of July 1910, about $2\frac{1}{2}$ crores of 3 per cent. paper had been converted.

6. *Protection of Government promissory notes.*—A case having occurred in which one of the Exchange banks was defrauded of a very large sum by accepting forged Government promissory notes on genuine paper as security for an advance, the Bengal Chamber of Commerce represented that it would be a great convenience and protection to the mercantile community if some system could be introduced by which the validity of notes could be ascertained with reasonable despatch. Arrangements* were made for the issue by the Public Debt Office, at its discretion and under certain conditions, of a certificate of genuineness to be given usually on the day of presentation of the note.

The practice of staining the ground of Government Promissory notes with fugitive ink, and of chemically treating their paper, which was introduced a few years back as a protection against forgery, was proved to have attained only partial success, and it has now been abandoned. In future, however, there will be three distinct patterns of notes, distinguished by the colour of the borders, for notes of value below Rs. 5,000, between Rs. 5,000 and Rs. 25,000, and Rs. 25,000 and upwards respectively.

7. *Borrowing by local bodies*—In 1906, local Governments and Administrations were empowered† to extend to 15 years the maximum term of 10 years prescribed for repayment of loans granted under the Local Authorities (Emergency) Loans Act (XII of 1897) in cases in which they were satisfied that circumstances rendered such a course necessary. In the same year, in order to prevent local loans from clashing with the borrowings of Government, general orders‡ were issued to the four maritime provinces that no loan or instalment of a loan was to be raised by any local body in the open market without obtaining the approval of the Government of India to the date of issue thereof. A similar provision was inserted in the revised rules for the raising of loans by local authorities in the open market, which were issued in October 1907,§ under the Local Authorities Loan Act. Definite instructions were also laid down in these rules regarding the duration of loans, whether made by Government or raised in the open market. It was ordered (*a*) that the duration of a loan made by a local Government should not extend, save with the previous sanction of the Government of India, to beyond 20 years, or, in the case of loans required for works which are merely or mainly ornamental or convenient, to beyond 10 years; and (*b*) that the duration of loans to be raised in the open market was in each case to be fixed by the Government of India.

Some modification was, however, subsequently made in these rules by Notification No. 6215-A., dated 30th October 1908, which empowered local Governments to sanction loans in the open market to the amount of five lakhs of rupees, if repayable within thirty years.

* Government of India, Finance Department, No. 6176-A., dated the 3rd October 1907.
† Government of India Resolution (Finance), No 4021-A., dated the 23rd July 1906.
‡ Government of India, Finance Department, No. 5270-A., dated the 19th September 1906
§ Government of India, Finance Department, Notifications Nos. 6565-A. and 6566-A., dated the 24th October 1907.

8. Up to 1907 the borrowing powers of the Karachi Port Trust had been regulated by the Local Authorities Loan Act of 1879. In that year it was decided* to place Karachi on the same footing as the other large Port Trusts in the matter of raising loans, and the necessary amendment of the Local Authorities Loan Act and the Karachi Port Trust Act has since been effected. In July 1907 a somewhat important departure† was made in the grant of permission to the Calcutta Port Trust to raise a sterling loan of £1 million in the London market. Similar loans have since been floated by the Port and Improvement Trusts of Bombay and the Rangoon Port Commissioners.

9. *Provincialisation of loans to Native States in the Bombay Presidency.*—During the famine of 1899-1901 and the unfavourable seasons which followed it, the financial position of the minor proprietors of Káthiáwád in the Bombay Presidency became greatly embarrassed. While the revenues of their estates were seriously impaired, large expenditure was incurred by Government on their behalf in the direct management of famine administration. This expenditure, together with the advances made by Government to the proprietors for their personal maintenance and for the conduct of the ordinary business of their estates, was treated as constituting loans from imperial revenues. On the recurrence of normal conditions, it became obvious that anything approaching a complete discharge of this indebtedness within a reasonable space of time was entirely out of the question. The situation was discussed in 1908 by the Finance Member of the Government of India with the second and third members of the Executive Council of Bombay. As a result of the conference, a scheme was formulated for the liquidation of the debts of the Káthiáwád estates, and for the general regulation in future of the grant of loans to Native States under the political control of the Government of Bombay. This scheme was accepted by the Local Government and the Government of India, and received the sanction‡ of the Secretary of State in 1910. Its main features may be summarised as follows :—

(*i*) Government accepts as a charge on its revenues the direct expenditure on famine relief, which has hitherto been shewn as a debt charge against the non-jurisdictional estates of Káthiáwád.

(*ii*) So much of the existing debt of these estates as cannot be recovered within twenty years is at once written off.

(*iii*) That part of the debt which remains when the reductions described in (*i*) and (*ii*) above have been effected is provincialised : that is to say, the Local Government will bear any losses of principal which may occur, and will be responsible to the Government of India for the payment of interest on the full amount.

(*iv*) All loans granted in future to Native States and estates in Bombay, without any distinction as to the object of the loan or the position of the recipient, will be similarly provincialised.

10. *Calcutta improvement scheme.*—The position of this important scheme at the commencement of Lord Minto's Viceroyalty will be seen by a reference to the summary of Lord Curzon's administration, Part II, Chapter III, paragraph 8. Definite proposals in the matter were received from the local Government in February 1907 and submitted§ to the Secretary of State

* Government of India, Finance Department, No. 3903-A., dated the 30th June 1907.
† Secretary of State's telegram of 30th July 1907.
‡ Secretary of State's despatch No. 40 (Political), dated the 13th May 1910.
§ Government of India Despatch (Finance), No. 380, dated the 26th September 1907.

in the following September. The revised arrangements then proposed for financing the scheme may be summarized as follows :—

Charges.	Lakhs.	Receipts.		Lakhs.
Interest and Sinking fund charges on loan of 436 lakhs . . .	19·65	Contribution of 2 per cent. of Municipal General rate.	5·40	
Working expenses, etc., of Trust .	1·25	Transfer duty at 2 per cent.	2 00	
	20·90		7 40	
Deduct—Return from land taken up for housing and expansion .	3 00	To be made up to. . . .		7·50
		Jute tax		8·40
	17·90	Terminal passenger tax . .		2·00
				17 90

The scheme was sanctioned* by the Secretary of State, who also agreed to a further grant-in-aid from Imperial revenues of Rs. 1½ lakhs a year for sixty years. This assistance, which was supplementary to the grant of 50 lakhs already sanctioned, was conditional upon the proposed scheme of taxation becoming law in its entirety and being made effective for the full term of sixty years. It was designed to form a reserve, which would materially lessen the risk of an undue delay in the progress or reduction in the scope of the scheme owing to any unforeseen increase in its net cost. The necessary legislation was introduced in the Bengal Legislative Council in the course of 1910.

* Secretary of State's Despatch No. 14-Rev., dated the 14th February 1908.

CHAPTER IV.

OPIUM.

1. The main incidents of the movement for the restriction of the consumption and cultivation of opium in China have been recorded in Part I. The present section deals with departmental and provincial questions of minor importance.

2. *Production and export:*—(*a*) *Recruitment for Bengal Opium Agencies.*—The higher posts in the Bengal Opium Department, comprising those of Sub-Deputy and Assistant Opium Agents, are at present recruited mainly from the European and Eurasian communities, only one-fourth of the appointments being reserved for Natives of India of unmixed descent. The principle of employing Indians in the Department had been introduced as an experimental measure in 1884; and in May 1905 enquiry was made of the Government of Bengal whether this system had proved satisfactory and, if so, whether there was reason to increase the proportion of such appointments. The reply of the local Government, which was received in November 1905, shewed that the existing procedure had worked fairly well, but that its success had not been sufficiently marked to justify the reservation of a greater number of posts for Indians: and it was accordingly decided to make for the present no change in the proposed direction. In their report on the subject the local authorities complained that the current method of enlisting Europearns and Eurasians for the Department from among young men born and brought up in the country did not ensure the supply of a satisfactory class of recruit; and they suggested that the greater part of the appointments which had previously been reserved for candidates of this description should in future be filled by recruitment in England of unsuccessful competitors in the police examinations. The Government of India, however, held that this course was inadvisable, and decided to make no change in the prevailing system.

(*b*) *Manufacture of Bengal provision opium.*—The standard consistence of opium manufactured at the Patna factory is fixed at 75°, and that for the factory at Ghazipur at 71°. When this standard is not reached the deficiency is made up by adding 15 chittacks of opium per chest for each degree by which the drug falls short of the standard. For many years past large quantities of the produce of the Benares Agency, which is of lower consistence than the Bihar produce, have been manufactured at Patna. With poppy cultivation dwindling in Bihar and the consequent reduction in the supply of high grade opium, the proportion borne to it by the transferred opium of the Benares Agency has been increasing. The result is that the total quantity of provision opium which it is now possible to manufacture at 75° is falling far short of the demand of the China market, where opium of this higher consistence is most in favour. The Bengal Board of Revenue took up the question and suggested the following three alternative courses with regard to the future standard of caking at the Patna factory :—

(*a*) to continue to manufacture only as much opium as it is possible to make at 75°, or

(*b*) to manufacture at 71° as well as at 75°, or

(*c*) to manufacture in Patna at 71° only, as in Benares.

They subsequently consulted the leading opium merchants of Calcutta and came to the conclusion that the Patna factory should continue to manufacture as much provision opium as possible at a consistence of 75°, the usual recognised compensation by weight being allowed for that portion of the output which falls short of the prescribed standard. The Board's conclusion was accepted at the time by the local Government and the Government of India.* As has been explained in Chapter VI of Part I of this summary, the question was again taken up in 1910. The reduction of exports to China, and the consequent diminution of poppy cultivation, rendered it extremely desirable to abolish the Bihar factory; and it was decided to make experiments in order to ascertain whether the withdrawal from the China market of the Patna drug was likely to cause any material loss to the revenues of Government.

3. *Provincial Administration: Punjab.*—In the year 1900 the Government of India had drawn the attention of the Punjab Government to the unsatisfactory character of the opium arrangements in force in the province. At that time the taxation on opium locally produced took the shape of an acreage rate on poppy cultivation. The Government of India suggested two possible alternative schemes. Opium grown in the Punjab should either be burdened with an adequate excise duty and required to be stored in Government warehouses, or it should be taxed out by a material increase of the acreage rate, to be accompanied by an enhancement of duty on imports from outside the province. After considerable correspondence the Punjab Government found it impossible to evolve any scheme of excising the local product which would be acceptable to both the central and the provincial Governments; and after careful consideration of the whole position it was eventually decided† to adopt the following measures :—

(*i*) The cultivation of the poppy for the production of opium (as distinguished from poppy-heads) should be prohibited in the plains districts of the Punjab. In future it should be confined to the Hill States of the province, the Kotkhai *tahsil* of the Simla district and the Kulu sub-division of the Kangra district.

(*ii*) The province should discontinue consumption of the Malwa drug and draw its supplies mainly from the Bengal Agencies on payment of an adequate rate of duty. A certain amount would also be taken from Kashmir, Afghanistan and trans-frontier territory to the west, as well as from the Hill States and the Simla and Kangra districts.

(*iii*) The acreage rate should be supplemented by quantitative duties equivalent to those imposed on the Bengal product. The taxation on foreign opium should at the same time be correspondingly enhanced.

These changes were duly introduced before the 1st April 1909, from which date the duty on Afghan and Kashmir opium was raised to Rs. 6 a seer.

In 1910 further restrictions were imposed.‡ The duty on opium imported into the Punjab from the Hill States was raised from Rs. 2 to Rs. 3 *per* seer; a quantitative duty of Rs. 2 *per* seer, additional to the existing acreage rate of Rs. 2, was levied upon opium produced in Kotkhai; and the acreage

* Letter No. 2703-Exc., dated the 9th May 1908.
† Letter No. 6968-Exc., dated the 17th December 1906.
‡ Letter No. 2180-Exc., dated the 29th April 1910.

rate on Kulu poppy-fields was enhanced from Rs. 2 to Rs. 9. The Government of the Punjab is now considering* the desirability of increasing the duty on Afghan imports of the drug to Rs. 8, and of making some further additions to the rates levied on opium locally produced and imported from the Hill States. A prohibition of import from the Kashmir State is also under contemplation. This is thought to be desirable, lest the exclusion of Malwa opium from the two provinces should encourage the State to increase its precarious cultivation in the hope of taking the vacant place.

4. *North-West Frontier Province.*—Simultaneously with the change described in the preceding paragraph, steps were taken to change the source of supply of excise opium to the North-West Frontier Province. That province now draws its main stock from Bengal, but takes a certain amount from Kashmir, Afghanistan and trans-frontier territory to the west. Import from Malwa and the Punjab has been strictly prohibited.

5. *Baluchistan.*—With effect from the 1st April 1909, Baluchistan also commenced† to draw its supply of opium from the Bengal Agencies.

6. *Burma.*—In the summary of Lord Curzon's administration a description was given of the introduction and working of certain revised arrangements relating to opium in Lower Burma. Detailed proposals for the improvement of these arrangements were subsequently received from the local Government. Pending their consideration, the appointment of a separate Commissioner of Excise for Burma and of an officer of the rank of District Superintendent of Police as Chief Superintendent of Excise was sanctioned by the Secretary of State.‡ The latter post was, however, created in the first instance for a term of five years only. When the main proposals were submitted to the Secretary of State in 1906,§ a portion only of the scheme received his approval. He accorded‖ sanction, however, to the strengthening of the existing preventive establishments in Lower Burma, and to their advancement from a temporary to a permanent footing. He also accepted proposals to make provision for the demand of security for good behaviour from Burmans, other than registered consumers, who habitually indulge in the use of opium; to amend the rules under the Opium Act in order to restrict each registered or privileged consumer to a single shop; and to fix an aggregate limit of possession of opium for an assemblage of smokers which should be less than the total of the quantities which they might individually possess. Effect was given to the second and third of these decisions by means of amendments of the opium rules of the province. The first proposal called for legislation, and a bill was prepared containing clauses in which power is taken to require persons, who are by habit or repute illicit dealers in opium, to give security for good behaviour. The opportunity was also utilised to include in the bill provision for the entry and search of a boat or other conveyance by an authorised officer without a search-warrant, on occasions when delay is likely to result in the escape of an offender or the loss of contraband opium. The new law was passed in the provincial Council in September 1909, and has since received the approval of the Secretary of State.

7. In the meantime, the Government of Burma had submitted, early in 1908, proposals for the entire reorganisation of the opium establishments in

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* Letters Nos. 3784-Exc. and 3785-Exc., dated the 21st July 1910.
† Telegram No 1334-Exc., dated the 9th March 1909.
‡ Despatch to Secretary of State, No. 404, dated the 7th December 1905.
Despatch from Secretary of State, No. 5-Rev., dated the 19th January 1906
§ Despatch to Secretary of State, No. 321, dated the 6th September 1906.
‖ Despatch from Secretary of State, No. 9-Rev., dated the 18th January 1907.

both the upper and the lower province The Government of India, while they agreed that the special conditions of Burma demanded a properly organised preventive staff, considered that the cost of the scheme was out of all proportion to the revenue derived from opium, and that it could not be justified by any reasonable estimate of the results to be attained by the employment of the larger force. The scheme was accordingly returned* for revision, and less expensive proposals were submitted by the local Government in July 1909. These were deemed to be suitable and were forwarded† to the Secretary of State for sanction. with the recommendation that effect should be given to them as soon as funds could be found for the purpose. In view, however, of the unsatisfactory position of the finances of the province, the Government of India reported their intention of deferring the introduction of the new scheme until the local Government could meet its cost without inconvenience. The revised proposals failed to commend themselves to the Secretary of State. In his opinion, the reorganised establishments were unduly expensive,‡ and he requested the Government of India to re-cast the scheme; adding that he would not consent to the introduction of any measure of reorganisation until he should be assured that provincial revenues were fully able to bear the expenditure. The Secretary of State's criticisms have been communicated to the Government of Burma, and a report on the subject is still awaited.

8 The special conditions and restrictions imposed upon the vend of opium in Burma have rendered contraband dealings in the drug extremely profitable. Its issue-prices are considerably higher in that province than elsewhere, and the limitation of the amount supplied to consumers makes them anxious to supplement this amount from any source available and to pay still higher prices for the opium so obtained. The illicit demand was, at the outset, supplied by the hawking of opium obtained from licensed shops. The local Government took steps to check this traffic, and the result has been a great increase of smuggling from outside the province. An elaborate organisation has come into being, with the sole object of collecting large quantities of Bengal opium in different parts of India and importing them secretly into Burma. This organisation meets with sympathy and assistance among various classes of the people, and can afford to pay large sums of money to advance its own interests. There is consequently grave risk of the prohibition policy in Burma being rendered entirely abortive. In January 1908 the local Government brought this aspect of the question to the notice of the Government of India, and represented the urgent need of action by other provinces to check the collection of opium intended for illicit importation into Burma. The Governments of Bengal, the United Provinces and Eastern Bengal and Assam were accordingly addressed on the subject, and on the receipt of their reports the matter was carefully considered in all its aspects. It appeared that the smuggled opium is obtained from three sources: leakage from the factories; illicit collection of crude opium from cultivators; and purchases of duty-paid cakes from shops in other provinces. Enquiries, however, shewed that the supply from the first and second of these sources is insignificant, and that it is the third source to which the attention of Government must be directed. A resolution dealing with the

* Lettter No 5091-Exc, dated the 3rd September 1908.
† Despatch to Secretary of State, No. 291, dated the 23rd December 1909.
‡ Despatch from Secretary of State, No. 35 (Revenue), dated the 3rd June 1910.

subject was issued by the Government of India in July 1909.* It recommended the restriction of issues of opium to shops in Calcutta and the surrounding districts and in Chittagong, in order to limit the surplus amount available for export from the neighbourhood; the maintenance of a watch upon the large quantities of the drug supplied to the Rampur State; and the enhancement of the issue price everywhere. It then proceeded to detail certain measures, some of which are already either wholly or partially in force in various provinces, as suitable for adoption by all local Governments and Administrations. Among these were the following :—

(*i*) A statement should be prepared every month, shewing the issues of Government excise opium to every shop in a district, and these should be scrutinised and compared by a responsible officer with the sales recorded by retail vendors. Any case in which the issues to a shop are abnormally large or small should at once be investigated and reported to the officer in charge of the excise administration of the district.

(*ii*) Each licensed vendor should be required to keep a register of sales, in which he should enter the name and address of each person buying more than a specified quantity of opium, as well as a daily and monthly total of sales and a detail of the stock of excise opium in hand. A comparison of the issues with the sales would show whether the licensee was or was not working honestly.

(*iii*) Careful enquiries should be made into the characters of vendors, and those suspected of dealing with smugglers should not be entrusted with shops in future; a black list of convicted or suspected vendors and salesmen being opened for use in this connection.

(*iv*) Reserve prices of shops, where these exist, should be carefully revised and should be lowered, if necessary, in order to ensure to honest dealers an adequate profit on licit local sales.

(*v*) An endeavour should be made to restrict issues from treasuries to vendors to the reasonable requirements of the neighbourhood.

It is hoped that, with the assistance of the strenghtened and reorganised establishments which are now being, or will shortly be, employed in the different provinces, it will be found possible to make these measures effective and to ensure a material reduction in the extent to which smuggling prevails.

9. *Madras.*—Up to the year 1908, the Madras Presidency obtained its excise opium from Malwa through the Bombay warehouse. This system had not proved entirely satisfactory. The cakes supplied were dear, were of inferior quality and were almost indistinguishable from opium smuggled from Malwa into Madras. It was accordingly decided† to abolish this procedure, and to provide Madras with opium manufactured in the Bengal factories. The change was duly introduced with effect from the 1st April 1908. The French settlement of Pondicherry and the native states of Madras, which were by treaty entitled to obtain opium from Government on payment of cost price *plus* duty, raised no objection to the new arrangement,

* Resolution No 3615-Exc., dated the 17th July 1909.
† Letter No. 5963-Exc., dated the 26th September 1907.

and took the quantities which they required at the prices charged by Government to retail vendors. In 1910, however, the Government of Madras enhanced its issue-price by Rs. 5 *per* seer, and it was feared that the French authorities and the Darbars might find it cheaper to import Malwa opium for their own use. The introduction of such a practice would have involved a most undesirable risk of smuggling into British territory, and steps were taken to avoid this danger. The plan adopted was to raise the pass-duty on Malwa opium imported into Madras from Rs. 700 to Rs. 1,200 a chest, and thus to increase the price of this variety to a figure above that charged for the Bengal drug at the Madras depôts. The enhancement was notified on the 22nd July 1910,* and the Darbars have now no incentive to demand a change of system.

10. *Chandernagore.*—The opium convention with the French administration at Chandernagore was renewed† for six years with effect from the 1st January 1907, certain modifications being made in the previous conditions with a view to the more effective prevention of illicit traffic between French and the adjacent British territory.

11. *Miscellaneous: Poppy-heads.*—In September 1908 the Government of the United Provinces suggested the removal of the restrictions imposed upon the possession, sale and transport of poppy-heads in those provinces. Bengal and the Punjab were consulted and it appeared that there was no reason to believe that dried heads from which opium had been extracted were used in the preparation of intoxicants. It was accordingly decided‡ to free such heads from all restrictions in Bengal, the United Provinces and the Punjab, and other local Governments have been advised to amend their opium rules in a similar sense.

12. *Regulation of the traffic in morphia.*—Enquiries made in 1905 of certain local Governments and Administrations as to their treatment for excise purposes of morphia and its preparations elicited the information that in some provinces these articles were regarded as ordinary drugs and medicines and subjected to no special restrictions. This state of affairs was clearly unsatisfactory, and instructions were issued in January 1906 that morphia should in future be treated as a preparation of opium and traffic in it regulated by the rules under the Opium Act. It has since been decided in all provinces of India proper to fix a limit of ten grains for possession and retail sale of the drug. In Burma a lower limit of two grains had previously been laid down.

13. *Manufacture of medicinal opium.*—There is a large demand for opium in Europe and elsewhere, either for use directly for medicinal purposes or for the manufacture of morphia and other medicinal preparations, and at present the major portion of this demand is supplied by Turkey. So far as is known at present, the Turkish drug holds the market because it contains between 12 and 15 *per cent.* of morphine against the 4 to 8 *per cent.* which occurs in Indian opium. There appears, however, to be no reason why the latter should not be put into more effective competition with the Turkish article. The trade would probably be a remunerative one, and it would compensate in some measure for the losses to which the restriction of exports to China must expose the agricultural classes in India. Before taking any

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* Notification No. 3849-Exc, dated the 22nd July 1910.
† Letter from Bengal, No. 217-O., dated the 22nd February 1907.
‡ Letter No. 359-Exc., dated the 21st January 1910.

steps in that direction the Secretary of State was asked* to obtain any available information regarding the extent of the demand in the chief importing countries and the standard and condition of the drug there demanded, together with any statistics as to the ordinary wholesale market price in different countries and such other particulars as might be of use. In reply the Secretary of State forwarded† a report by Professor Dunstan of the Imperial Institute on the possibility of an increased use for medicinal purposes of Indian opium and its products. The Government of India accepted‡ the Professor's proposal that a comparative study of the composition of Indian and Turkish opium should be carried out at the Institute, and have asked§ the local Governments and Administrations concerned to collect and forward to the Imperial Institute representative samples of the different varieties of Indian opium, with selected botanical specimens of the plants and a careful description of the soil and of the methods of cultivation, extraction and preparation of the drug in each case. Meanwhile the Inspector General of Agriculture in India has been instructed to enquire into the possibility of improving the cultivation of the poppy plant with a view to obtaining a higher percentage of morphine in the opium produced.

* Despatch to Secretary of State, No. 388, dated the 10th October 1907.
† Despatch No 59-Revenue, dated the 8th May 1908.
‡ Despatch No 317, dated the 29th October 1908
§ Letters No. 4672-Exc., dated the 7th August 1908, and No. 5844-Exc., dated the 14th October 1908.

CHAPTER V.

EXCISE.

The issue of the series of important resolutions dealing with general questions of excise policy which followed on the receipt of the report of the Excise Committee has been dealt with in chapter VI of part I. The present chapter deals only with minor questions of departmental and provincial policy.

1. *Enhancement of the duties on certain descriptions of imported liquors.* —The proposal* to enhance the duties on imported spirits, liqueurs and perfumed spirit, to which reference was made in part II, chapter VI, paragraph 5, of the summary of Lord Curzon's administration, was approved† by the Secretary of State in January 1906. An Act to amend the Indian Tariff Act, 1894, so as to give effect to the proposed enhancement of the duties was passed in the Legislative Council of the Governor General on the 26th January 1906, and the increased duties came into effect from the 26th day of the following month. The specific enhancements provided for in the new Act were as follows :—

Ordinary spirits, from Rs. 6 to Rs. 7 *per* gallon of the strength of London proof

Liqueurs, from Rs. 6 to Rs. 10 *per* Imperial gallon.

Perfumed spirits, from Rs. 8 to Rs. 11 *per* Imperial gallon.

With effect from the 25th February 1910, the rates were further raised to Rs. 13 on liqueurs and perfumed spirits and to Rs. 9-6-0 in the case of ordinary spirits. The normal tariff rate was thus brought to the convenient figure of $1\frac{1}{2}$ annas *per* degree of proof. The enhancement was essentially a fiscal measure, but it could be justified on administrative grounds also. The previously existing rates were actually lower than the excise duty levied in many parts of India on indigenous spirit, and the latter was thus at an undesirable disadvantage as compared with imported alcohol. The opportunity was also taken of relieving spirits used in compounding drugs and medicines from an arbitrary and frequently unworkable distinction to which they had formerly been subject. They had previously been taxed at five *per cent ad valorem* when used in a proportion of less than twenty *per cent.* of proof spirit, and at Rs. 7 *per* Imperial gallon when used in a greater proportion. These two rates were now replaced by a uniform duty of Rs. 7-13-0 *per* proof gallon. Simultaneously with the increase in the tariff rates on spirit, the import duty on sparkling and other wines was raised from Rs. 2-8-0 and Re. 1 *per* Imperial gallon, respectively, to Rs. 3-12-0 and Re. 1-8-0.

2. *Enhancement of the duty on imported and indigenous beer and other fermented liquors.*—The duty of one anna a gallon on both classes of liquors, which had remained unaltered since 1863 and 1890, respectively, was considered to be inadequate in view of the increase in taxation on spirits during recent years. It was also found that, as shown by the declared value of imports, a large quantity of imported beer paid less, at one anna a gallon, in proportion to its value than it would under the ordinary tariff rate of 5 *per cent ad valorem.* On the recommendation of the Excise Committee it was

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* Despatch to Secretary of State, No. 390, dated 23rd November 1905.
† Telegram from Secretary of State, dated 9th January 1906.

accordingly decided,* with the approval of the Secretary of State,† to raise the duty to 2 annas a gallon. A Bill to amend the Indian Tariff Act, 1894, was passed on the 3rd January 1908 and the increased duty came into effect from that date. In connection with the fiscal measure described in the preceding paragraph, the duty was further raised to three annas a gallon with effect from the 25th February 1910

3. *Readjustment of taxation on spirit made in India after European processes*—In paragraphs 9 to 14 of the resolution in this Department No. 1975-Exc, dated the 6th April 1905, the Government of India considered the question of assimilating the system under which "plain spirit" manufactured in India by European methods is sold to that applicable to ordinary "country liquor," and they arrived at the conclusion that, in areas where the outstill system is not in force, this spirit should be tariffed at the same rate and be subject to the same regulations as ordinary country liquor.

A further question which arose in connection with this matter was that relating to the taxation of spirit manufactured in India after European processes, but coloured and sophisticated so as to resemble imported spirit, *viz.*, whisky, brandy, rum, and so forth. The Government of India expressed the view that in all provinces where plain spirit manufactured in India by European methods is admitted to the country spirit market, locally produced sophisticated spirit should be tariffed at the same rate and be subject to the same regulations as imported spirit. When the resolution of the 6th April 1905 was issued, this was already the case in all provinces except the United Provinces, the Punjab, the North-West Frontier Province and the Central Provinces; but the position was subsequently altered in consequence of the enhancement of the duty on imported spirit to Rs. 7 *per* proof gallon. The Government of India accordingly desired‡ that in all provinces where plain spirit manufactured in India after European processes is now treated for excise purposes as country spirit, steps should be taken (where this had not already been done) to raise the duty on locally manufactured sophisticated spirit so as to make it correspond with that on the imported article. In Eastern Bengal and Assam and Bengal, however, where the system of admitting plain spirit to the country spirit market had not as yet been materially developed, it was left to the discretion of the local Governments to raise the duty on sophisticated spirit to Rs. 7 *per* proof gallon or to maintain the present rate of Rs. 6 *per* proof gallon.

In the Punjab, the Central Provinces and Berar and the North-West Frontier Province the enhanced rate§ of duty (Rs. 7) on these classes of spirit took effect from the 1st April 1907, and in Eastern Bengal and Assam from the 1st October 1907. The duty on malt spirit produced in the Punjab was raised from Rs. 4 to Rs. 7 from the April following. In Madras and Bombay the duty on spirits manufactured by European methods was raised to Rs. 7 from the 26th February 1906, the date on which the tariff duty on imported spirits was enhanced to that amount. A similar increase in Sind took place in 1906-07. The Bengal Government did not exercise the discretion allowed to them to maintain the rate of Rs. 6 *per* proof gallon on sophisticated spirit and have applied the enhanced duty not only to such spirits throughout the province, but also to plain spirit manufactured after

* Despatch to Secretary of State, No 309, dated 15th August 1907.
† Telegram from Secretary of State, dated 25th September 1907.
‡ Resolution No. 1987-Exc., dated 9th April 1906.
§ Resolution No. 1937-Exc., dated 27th March 1907.

European processes, except in areas where the contract distillery country spirit system has been introduced. In Ajmer-Merwara, Coorg and Baluchistan no action in the direction of enhancing the local rates of duty is required, as sophisticated spirit is not manufactured locally and, when imported, pays duty in the province of manufacture at the rate there in force.

When the tariff on imported spirit was enhanced in February 1910, local Governments and Administrations were requested to raise the excise duties on sophisticated spirits locally produced to the level of the new tariff rates.

4. *Enhancement of the duty on rum supplied to troops.*—As described in part II, chapter VI, paragraph 26 of the summary of Lord Curzon's administration, the duty on rum issued to troops had been raised to Rs. 2 *per* proof gallon in the year 1900. With the general increase in the excise duty on sophisticated spirit, detailed in the preceding paragraph, an enhancement of this rate was clearly desirable; and, it was accordingly raised* to Rs. 2-6-0 with effect from the 1st July 1908. By a subsequent modification,† the levy of duty at this rate was restricted to rum supplied to soldiers by the Supply and Transport Corps on the recommendation of the medical authorities. As regards ordinary use, all British and Indian troops serving in India and Burma have been required, since the 1st October 1909, to make regimental arrangements to obtain their supplies of rum on payment of the local excise rate of duty. The Government of Burma has been asked‡ to make similar arrangements in the case of the Sikhs and Gurkhas serving in the military police of that province.

5. *Home-brewing of* pachwai *in Eastern Bengal and Assam.*—Following the recommendations of the Excise Committee, the Government of India had urged upon the Government of Eastern Bengal and Assam the desirability of taking steps for the suppression of the home-brewing of *pachwai*. The local Government in their reply§ strongly deprecated this measure. They urged the extremely unsatisfactory effect that it was likely to produce on the tea-planting industry. Considerable labour difficulties were already experienced in working the tea-gardens. Any restriction of the concessions enjoyed by the coolies would enhance these difficulties and would tend to alienate from Government the sympathies of the tea-planters. In addition to the political danger, they pointed out that the difficulty and expense of enforcing the proposed restrictions would be very great. So far from accepting the action suggested, they desired to extend the privilege of free brewing, which is at present allowed in the Jalpaiguri district and in Assam only, to the remaining districts of the province also. The Government of India felt constrained to accept the political argument so far as the tea-gardens were concerned. They refused‖ however to admit the necessity of further extending the concession, and questioned the desirability of retaining it in the parts of Jalpaiguri outside the tea-gardens. In the case of Assam, they agreed for the present to maintain the existing arrangements.

6. *Central India States.*—In part II, chapter V, paragraph 11, of the summary of Lord Curzon's administration reference was made to the deputation of a special officer during the cold season of 1904-5 to enquire into the excise and opium arrangements of the Native States in Central India. The

* Letter No. 4034-Exc., dated 10th July 1908.
† Army Department letter No. 378-E, dated 16th September 1909.
‡ Letter No. 5307-Exc., dated 25th October 1909.
§ Letter No. 3560-F., dated 23rd April 1908.
‖ Letter No. 5365-Exc., dated 21st September 1908.

report of this officer was submitted in December 1905. To carry out the recommendations made in the report an officer with the designation of Excise Commissioner for Central India was appointed for a year in the first instance. It was subsequently decided,* with the approval of the Secretary of State,† to continue this appointment for a further period of two years. It was the function of this officer to advise the States in regard to Excise matters generally and to assist them in carrying out certain reforms which had been recognized as desirable.‡ In the orders originally issued it was provided that the contract distillery country spirit system in force in the Madras Presidency should be applied to the more advanced tracts, *i.e.*, in large parts of the States of Gwalior and Indore, in Bhopal, Sitamau, Rewa, Rutlam, Sailana, Rajgarh, Narsingarh and the two Dewas, and ultimately also in Jaora and Dhar. The contracts for the supply of country spirit to these States were to be granted either to firms establishing local distilleries or to those already possessing distilleries in British India, and in the latter case the spirit required for consumption in the States would be imported in bond from the British provinces in which the contractors' distilleries are located. In small States, where concentration of distillation has been or can be effected, the introduction of a more primitive distillery system was contemplated on the lines of the modified distillery system formerly in force in the United Provinces, which gives the monopoly of manufacture and vend in a fixed area to a single contractor. The contractor would be selected by tender and would be required to dispose of his liquor at fixed prices. In the rest of the States the outstill system would be continued, subject to the fixation of a minimum price for the liquor sold. A large reduction would be effected in the number of country spirit shops which is at present excessive. Spirits manufactured in India after European processes were to be sold under the same license as liquors imported by sea, and to be subject to the payment of tariff rates of duty. The right of vend of such spirits was to be separated from that of country spirit.

As regards *hemp drugs*, the cultivation of the hemp plant was in future to be restricted to the States of Gwalior, Indore and Dewas (Senior Branch), and to be permitted only under license and subject to the condition that the cultivator should deliver his produce within a fixed date after manufacture to a licensed dealer. Each State in which hemp drugs are produced or consumed was to control the traffic in these drugs, and levy thereon the same rates of duty as are imposed in the adjoining provinces of British India.

On a subsequent reference§ from the Agent to the Governor General in Central India it was decided‖ that these principles should not be applied with undue rigidity and that all semblance of pressure on the States in excise policy should be avoided. In particular the States were to be permitted, where this seemed advisable, to modify the contract distillery system by the application to it of the system of minimum guarantee; and they were to be allowed to adopt a system of State supply of opium, *ganja* and *charas*. As regards the Bundelkhand States, it was decided¶ that licensed vendors or contractors should be permitted to import their own supplies of hemp drugs, first obtaining from the Darbar an authority to do so.

* Despatch to Secretary of State, No. 199, dated 6th June 1907.
† Despatch from Secretary of State, No. 85-Pol., dated 26th July 1907.
‡ Letter No 6965-Exc., dated 12th December 1906.
§ Letter from the Agent to the Governor General, Central India, No. 47, dated 13th February 1907.
‖ Letter No. 1852-Exc., dated 23rd March 1907.
Letter from the Agent to the Governor General, Central India, No. 276-C., dated 14th February 1908.
¶ Foreign Department letter No. 2649-I. B., dated 1st July 1908.

7. The appointment of Excise Commissioner was allowed to lapse at the end of the sanctioned period of three years. While it existed, various important reforms were inaugurated. The Madras contract supply system was introduced in Barwani, Alirajpur, Jobat, Narsingarh and Khilchipur and in the head-quarters district of the Indore State, and arrangements were practically completed for its adoption in the Nimar district of Indore and in the *parganas* of the Dewas States which are surrounded by that district. With the same object in view concentration of distilling operations was effected in Bhopal, Rutlam, Jaora, Sailana, Sitamau and Piploda and in parts of the Gwalior territories; while a minimum guarantee system was instituted, as an intermediate step, in Jhabua, Rajgarh and parts of Rewa. Arrangements for the formation of a shopless zone were concluded with nearly all the leading States possessing frontiers coterminous with those of British India, the principal exceptions being Gwalior, Orchha and Rewa. In the majority of the States concerned, the reforms mentioned above have been accompanied by an enhancement of retail prices, a reduction in the number of shops and the fixation of limits of private possession and of retail sale.

The cultivation of the hemp plant has been prohibited throughout Central India, except in certain definite areas of Gwalior, Indore and Dewas; and in these areas it has been placed under control, the produce being required to be either sold to the State or lodged in State warehouses. Retail vend licenses are now sold by auction, and licensees must pay quantitative duties on all drugs which they either import or, in the case of producing States, take from State warehouses. Similar restrictions on dealings in hemp drugs have been applied to all British areas in Central India.

8. Beyond the changes mentioned in the foregoing paragraph, no appreciable progress has been made in excise reform in the Central India States. The position has been complicated by the submission by the Gwalior Darbar of an elaborate scheme for the improvement of its excise and customs arrangements. This scheme involves important political issues in respect of the Darbar's relations with its guaranteed Thakurates, and the Government of India were unable to pass orders upon it before the expiry of the Excise Commissioner's term of office. It is hoped, however, that the impetus which his appointment has given to the improvement of Excise administration generally will enable the more enlightened States to safeguard their own interests in the matter.

9. *Cantonments and other areas in Central India under British jurisdiction.*—When the excise system in the States was under consideration, it was thought necessary to reform the administration of the cantonments and other isolated tracts in Central India which are under British jurisdiction. It was accordingly decided* that the improved arrangements approved for the Native States in regard to liquors, opium and hemp drugs should, generally speaking, also be applied in those areas, including the prohibition of the cultivation of hemp or the poppy, except as regards the continued production of opium in the Manpur district. The cantonment authorities will obtain their supplies of opium and *ganja* from the producing Native States, while a joint contract for the supply of country spirit under the contract distillery system will be applied to the cantonment and the surrounding Native State

* Letter No. 6965-Exc., dated 12th October 1906.

areas, the former receiving the duty on liquors consumed there *plus* the proceeds of the retail vend arrangements. The rates of duty in both the British and Native State areas will be the same and the general excise and opium regulations to be formulated for the latter will be adopted for the former.

In accordance with the decision mentioned in the preceding paragraph the contract distillery country spirit system was introduced* in the Mhow Cantonment, Indore City and the Indore Residency Bazars with effect from the 1st October 1907 and arrangements were made for the manufacture and supply of spirit from a distillery situated in Indore City with two distributing warehouses. The new system was introduced† in the Cantonment and Civil lines of Nowgong from the 1st February 1908. At the same time, the local excise laws in force were amended‡ in order to legalise and facilitate the introduction of the above system in those areas.

10. *Experimental reduction of the vend price of liquor in certain districts of the Punjab.*—The local Government introduced this measure with effect from the 1st April 1905 in the four Sikh districts of the Punjab, with a view to combating the inordinate prevalence of illicit distillation in those districts. When the matter came to the notice of the Government of India, the disadvantages of the experiment were pointed out to the local Government and they were asked to terminate it as soon as possible. The latter, however, requested a reconsideration of the orders, and while the question was still under consideration, the Secretary of State requested a report on the subject. After a careful enquiry into the matter the Government of India reported§ its conclusions to the Secretary of State. It was found that the experiment had resulted in a great increase in the sale of liquor in the four districts concerned. The Government of India thought that in ordinary circumstances much stronger evidence of the decline of illicit distillation would be required before the retention or even the continuance of the scheme could be agreed to; but that in view of the strong representation of the local Government, mainly based on political considerations, it might, with the Secretary of State's approval, be allowed to continue for another two years, subject to the raising of the still-head duty and the abandonment of the fixation of a maximum selling price. The main feature of the scheme would then be a fixed fee system of disposing of retail licenses in place of the ordinary method of selling them by auction.

The Secretary of State sanctioned‖ the continuance of the experiment till the 31st March 1910, and the local Government was asked¶ to submit a further report as to its working, together with proposals as to the future, by the 1st December 1909. It was also directed (1) to retain maximum prices if considered necessary; (2) to raise the still-head duty to Rs. 5 *per* gallon L. P. as soon as possible; (3) to raise the maximum selling price proportionately; and (4) to take steps for strengthening the preventive establishments and exercising greater control over licensees. The still-head duty was accordingly raised throughout the province with effect from the 1st April 1909; the maximum selling price in the experimental districts was fixed at Re. 1 *per* quart; and proposals for the revision of the preventive

* Letter No. 5878-Exc., dated 20th September 1907.
† Letter from Agent to the Governor General, Central India, No. 2047-C., dated 4th December 1907.
‡ Letter No. 6496-Exc., dated 23rd October 1907.
§ Despatch to Secretary of State, No. 428, dated 5th December 1907.
‖ Despatch from Secretary of State, No. 49-Rev., dated 17th April 1908.
¶ Letter No. 3081-Exc., dated 25th May 1908.

staff at a yearly cost of Rs. 1,00,000 have been sanctioned* by the Secretary of State. The experiment did not last very long. In January 1910 the Punjab Government reported that it had proved a failure as a means of checking illicit distillation, and expressed the intention of abandoning it with effect from the 1st April 1910. The Lieutenant-Governor added an expression of opinion that the failure of measures directed against illicit practices was mainly due to the inadequate penalties provided by the Northern India Excise Act, XII of 1896. In communicating† the decision to the Secretary of State, the Government of India promised a consideration of the question of penalties in connection with the enactment of an excise law for the province.

11. *Bombay protest against the auction system of disposal of retail licenses for the sale of country spirit.*—In 1908 the Bombay Government sent up a strongly-worded protest against the orders of the Government of India for the introduction of the auction system throughout the Bombay Presidency. It is unnecessary to detail their arguments at any length. It is sufficient to state here that they urged that the adoption of this system had in many cases forced bids up to such a height that vendors were driven to illicit practices in order to secure a profit from their licenses; and that they claimed that the result had been an increase in the consumption of liquor. The Government of India were not convinced by the arguments of the local Government. They considered that illicit practices should be checked by preventive action, and were extremely sceptical as to the alleged growth of consumption. In view, however, of the strong wishes of the Governor in Council, they decided to allow the introduction of a fixed fee system, as an experimental measure, into three districts of the Bombay Presidency, and requested‡ the local Government to report the result of the experiment before extending the system further. In reply, the latter have submitted a further representation, reiterating their previous request and asking to be allowed complete discretion in the matter of the disposal of shops for the sale of intoxicants, without waiting for the result of the experiment now proceeding. The question is still under the consideration of the Government of India.

12. *Prohibition of the export of mhowra flowers to Portuguese India*—In part II, chapter VI, paragraph 10 of the summary of Lord Curzon's administration reference was made to the fact that the Secretary of State was addressed in 1904 with the object of arriving at an amicable settlement between His Majesty's Government and the Portuguese authorities in Europe in connection with the prevention of the smuggling of liquors from the Portuguese possessions of Daman and Nagar Avely into British territory The Secretary of State in due course communicated§ a copy of correspondence, in which the Portuguese Government expressed their willingness to meet the wishes of the Government of India if, as a *quid pro quo*, the latter allowed the free transit of rice and other articles between the Daman and Nagar Avely districts. This proposal could not be accepted, as it was thought that such transit would, in the case of salt and rice, degenerate into unauthorised free import of the articles into British territory. It was accordingly suggested|| to

* Despatch to Secretary of State, No. 71, dated 25th March 1909.
Despatch from Secretary of State, No 51, dated 7th May 1909.
† Despatch to Secretary of State, No 82, dated 31st March 1910.
‡ Letter No. 2942-Exc., dated 11th June 1909.
§ Despatch from Secretary of State, No. 68 (Revenue), dated 6th April 1906.
|| Despatch to Secretary of State, No. 35, dated 28th February 1907.

the Secretary of State that the Portuguese authorities might be urged to allow a shopless zone in the vicinity of the British frontiers without any corresponding *quid pro quo*, and in case of refusal sanction was requested to the prohibition of the export of mhowra flowers, and, if necessary, of other articles used for distillation, from British India to the Portuguese settlements in question. The Portuguese reply* was that the wishes of the Government of India could not be met as a new abkari tender had been accepted for three years and consequently, with the permission of the Secretary of State, the export of mhowra flowers to Portuguese possessions was prohibited† under the provisions of the Sea Customs Act, 1878 This step had the immediate effect of making the Portuguese authorities anxious to come to terms, and they addressed the British Foreign Office in April 1908 with a view to the resumption of negotiations. The Government of Bombay were accordingly authorised to re-open the subject, and correspondence is at present proceeding. Little progress has, however, been made, as the Government of Portuguese India is still unwilling to abandon its demand for customs concessions.

13. *Investigation of the alcoholic strength and acidity of* tari.—It was considered in certain quarters that the Excise Committee had somewhat over-estimated the case that could be made out against the use of *tari* as a beverage, and the question was prominently raised in connection with a discussion of the *tari* arrangements of Eastern Bengal and Assam. To set all doubts at rest, the Government of India directed an investigation by the officers of the central excise laboratory of the relative alcoholic strength and acidity of fermented and unfermented *tari* drawn and offered for sale in the two provinces of Bengal. Mr. Jenks, the acting Director of the laboratory, toured in the *tari* districts during the cold weather and made a practical examination of samples of the liquor on the spot, and the investigation was completed by his assistant during the following hot weather. In the report which he submitted§ in October 1909, Mr. Jenks shewed clearly that, in view of the difficulties attending the production of unfermented *tari*, it is necessary, for all practical purposes, to treat the liquor as a fermented beverage and to give up all attempts to differentiate in favour of "sweet" *tari*. The Government of India accordingly decided that it was desirable to aim at taxing *tari* up to the level of country beers, and to dispel the notion that it is a harmless drink which should be encouraged in the interests of sobriety. The report has been circulated‖ to all local Governments and Administrations, and the Inspector-General of Excise has been requested to advise the Governments of Bengal, Eastern Bengal and Assam and the Central Provinces, when he visits those provinces, as to the most suitable methods of improving their *tari* revenue.

14. In 1906 the Director, central excise laboratory, Kasauli, reported that the processes at present in use in India for denaturing spirit did not effectively render spirit non-potable, and recommended that redistilled bone oil should be prescribed as an agent for the denaturation of spirits in this country. Exception to this denaturant was, however, taken on the ground that it would be objectionable to caste prejudices, and he was asked to suggest some other denaturant. As the result of further experiments, Colonel

* Despatch from Secretary of State, No. 133 (Revenue), dated 16th August 1907.
† Notification No. 127—4, dated 9th January 1908.
§ Letter No. 512, dated 16th October 1909.
‖ Letter No. 555-Exc., dated 9th February 1910.

Bedford recommended the use of a mixture of ½ *per cent.* of light caoutchoucine and ½ *per cent.* of crude pyridine bases of mineral origin as a general denaturant in India. It was claimed for this mixture that it made the spirit nauseous without being poisonous, that it could not be removed except at prohibitive expense, and that, while cheaper than the denaturants already in use, it was free from anything which could offend religious or caste susceptibilities. The proposal was referred* to local Governments and Administrations and, after a careful consideration of their replies, the new denaturant has been prescribed† for use throughout India for customs and excise purposes, and Colonel Bedford has been asked to work out a specification for light caoutchoucine and to draft rules for testing it. There will be no objection, however, to the adoption, where necessary, of special methods of denaturation for spirit intended for use in particular arts and manufactures, provided that this is done under proper safeguards and that each case is dealt with on its own merits. Undenatured alcohol may similarly be used for industrial purposes, where necessary, under proper restrictions. It may also be mentioned in this connection that a minimum limit of 50° over proof has been fixed for the sale of denatured spirit in India.

15. *Changes in rates of duty on hemp drugs in British provinces.*—With effect from the 1st April 1906 (with the exception of the United Provinces and Baluchistan where the enhancement was made from 1st October 1906) the duty on *ganja* was raised from Rs. 4 to Rs. 5 a seer in all provinces where a higher rate was not already in force. The duties on the different varieties of Bengal *ganja* consumed in the United Provinces were also equalised from 1st October 1906, a step which had previously been taken in Bengal. In the Madras and Bombay Presidencies the duty on *bhang* was raised, from the 1st April 1906, from 8 annas to Re. 1 a seer, and in the Central Provinces and Berar from Re. 1 to Rs. 2 a seer. Up to September 1906 there was no direct taxation imposed on *bhang* in the United Provinces. It was, however, decided to levy, with effect from the 1st October 1906, an acreage duty of Rs. 8 *per* acre and a transport duty of Rs. 4 *per* maund on *bhang* removed from a producing district to any other district; and in October 1908, a duty of Rs. 4 a maund was imposed on exports to any place beyond the limits of the Provinces. On the 1st April 1910, the duty on *bhang* imported into Baluchistan was raised to Rs. 40 a maund. The duty on *charas* was enhanced to Rs. 8 *per* seer in Bombay, Madras, the Punjab, the North-West Frontier Province, the Central Provinces and Berar, Baluchistan, Ajmer-Merwara and Coorg with effect from the 1st April 1907, and in the United Provinces from the 1st October 1906. In the last-named province the production of the drug and its importation from Nepal had been prohibited from the same year

16. *Cocaine.*—During the last few years reports received by the Government of India have shown that the consumption of cocaine in various provinces has been greatly on the increase. The United Provinces Excise Law Amendment Bill to regulate the traffic in cocaine in that province was passed into law in January 1906. It was, however, found that except in Madras, Bombay and Bengal, where cocaine could already be dealt with as an intoxicating drug under local Acts, and in Burma where separate local legislation enabled similar measures to be taken, it was not possible to place any restriction on the drug. Accordingly, a general amendment was made in the North-

* Letter No. 2448-Exc., dated 29th April 1908.
† Letter No 571-Exo , dated 15th February 1910.

ern India Excise Act of 1896, by the Excise Amendment Act, VII of 1906, to make it possible to enforce a similar restriction in the remaining provinces. Further action* was also taken to the same end by absolutely prohibiting the importation of cocaine into India by means of the post and restricting its import by other means to cases in which it is introduced by persons or their authorised agents who may be specially permitted to import the drug. Specified officers of the Postal Department were also empowered under section 25 of the Indian Post Office Act, 1898, to search or cause search to be made for postal articles suspected to contain cocaine in course of transmission by the post in contravention of the above provisions. Similar restrictions in the case of novocain were imposed in August 1907,† and on eucaine, beta eucaine, beta eucaine lactate and holocaine in November 1909.

Further, in December 1907, it was decided‡ to prohibit the transmission of these drugs in foreign postal articles forwarded by other postal administrations in open transit through the Indian post office.

The provisions of the Excise Amendment Act, VII of 1906, were applied (*mutatis mutandis*) to Baluchistan in November 1906§ and to Berar in January 1907.‖ In the Civil and Military Station of Bangalore the necessary modification of the law had been previously made by executive order in May 1906.¶

17. *Miscellaneous: Medicated wines, etc.*—The imposition of excise restrictions on the sale of medicated wines and similar preparations containing a large proportion of alcohol has not hitherto been uniform in all provinces. Instructions were accordingly issued in April 1906** that the sale of medicated wines, etc., containing spirit in a proportion of 20 *per cent.* and upwards must be carried on under license in all provinces, preparations containing not more than 42 *per cent.* of proof spirit being allowed to be sold under chemists' licenses on payment of a small fee, while those containing more than 42 *per cent.* of proof spirit can be sold only under ordinary liquor licenses.

18. It is only possible to deal very shortly in this place with the action taken by local Governments as the result of the recommendations of the Excise Committee (*vide* part I, chapter VI, of this summary).

The Governments of Bengal, Eastern Bengal and Assam, the United Provinces, the Central Provinces, Madras, the North West Frontier Province and Ajmer-Merwara have submitted full reports on all the points referred to them. The Punjab and Coorg have still to reply with reference to chapter XIV, and Baluchistan to chapters XIII and XIV. The only other reports awaited are those of Burma on chapters III to VI and of Bombay on certain minor points omitted from consideration in the detailed reports already submitted and on chapter XIV.

The recommendations contained in the Government of India resolutions have generally been accepted with minor modifications. In Eastern Bengal and Assam, Burma, Ajmer-Merwara and Sind, however, no change will be made in the present arrangements in regard to *tari*; and the introduction of the tree-tax system of *tari* revenue has been postponed for the present in

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* Commerce and Industry Department Notifications Nos. 9227—75 and 9249, dated 29th November 1906.
† Commerce and Industry Department Notifications Nos. 7079—91 and 7098—91, dated 23rd August 1907.
‡ Commerce and Industry Department letter No. 10313—332, dated 10th December 1907.
§ Foreign Department Notification No. 3524-F., dated 12th November 1906.
Letter No. 6515-Exc., dated 23rd November 1906.
‖ Notification No. 320-Exc., dated 15th January 1907.
¶ Foreign Department Notification No. 2112-I. A., dated 25th May 1906.
** Letter No. 2141-Exc., dated 18th April 1906.

Bengal, the United Provinces and the Central Provinces. The Government of India have also agreed, on the representation of the local Governments concerned, that the distilling concessions at present enjoyed by certain jagirdars* in the United Provinces and the *tazimi istimrardars*† in Ajmer-Merwara should not be withdrawn. A few questions of departmental and provincial policy remain under discussion.

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* Letter from Government, United Provinces, No. 229-XIII, dated 9th July 1907.
Letter No. 5191-Exc, dated 19th August 1907.

† Letter from Chief Commissioner, Ajmer-Merwara, No. 477—1090, dated 24th April 1907.
Letter No. 2729-Exc., dated 4th May 1907.

CHAPTER VI.

SALT.

1. *Taxation: General reduction of duty.*—As stated in Part I, Chapter IV, paragraph 2 of this summary, the duty on salt was in March 1907 reduced* from Re. 1-8 to Re. 1 *per* maund, except in Burma where the lower rate was already in force and in Aden where a specially low rate obtains at present. The duty on Kalat salt imported into Baluchistan and on Segi salt imported into Quetta was at the same time reduced to the same extent and that on Mandi salt was lowered from 4½ annas to 3 annas *per* maund.

In view of the reduction of the duty on edible salt to Re. 1 a maund and the possibility of *sitta* (impure saltpetre salt) being advantageously used in a larger measure than at present for industrial and agricultural purposes, the fee for the excise of *sitta* was in August 1907 reduced† from Re. 1 to annas 8 a maund. Similarly the fee payable in the case of concessions regarding the issue of duty-free salt for industrial purposes was reduced‡ from Rs. 300 to Rs. 100 *per annum* in October 1907.

2. *Provincial administration: (a) Burma.*—Towards the end of the year 1906, the question of the enhancement of the taxation on salt locally manufactured in Lower Burma was brought under review, and it was decided that before any change was made in the existing rates of taxation it was desirable to obtain somewhat fuller and more accurate information of the circumstances and profits of the industry than is at present available. The Government of India agreed§ to the deputation for the purpose of an officer of the Burma Commission in conjunction with an officer of the Madras Salt Department. Messrs. J. B. Wingate and R. M. Thurley were appointed to conduct the enquiry, and submitted their report towards the end of 1908. They expressed the opinion that any appreciable enhancement of the rate of taxation would crush the local industry, but considered that this result would not in itself be undesirable. They therefore recommended the gradual extinction of salt manufacture in Burma by means of enhancement of taxation and closure of works. The local Government was entirely opposed to this view. It represented that the continuance of the industry was important both on economical and on political grounds, and advocated what practically amounted to retention of the existing system. The Government of India, while they accepted‖ the view of the local Government that entire suppression was undesirable, considered that the undoubted abuses disclosed by the inquiry should not be allowed to continue, and accepted a moderate increase of taxation, coupled with concentration of manufacture, as the best method of securing effective control. They accordingly directed that, in all districts in which the revenue demand on account of salt manufacture was less than Rs. 2,000, no new manufacturing licenses should be issued, the industry being allowed to die a natural death. For other districts, they prescribed the following line of action :—

(*i*) Manufacture in remote and inaccessible areas should be gradually suppressed and concentration effected.

* Notification No. 1748-Exc., dated the 20th March 1907.
† Letter No. 5273-Exc., dated the 22nd August 1907.
‡ Letter No. 6026-Exc., dated the 4th October 1907.
§ Letter No. 387-Exc, dated the 19th January 1907.
‖ Letter No. 4657-Exc., dated the 17th September 1909.

(*ii*) The quantitative duty should at once be raised from eight to ten annas a maund.

(*iii*) The system of levying composition duties should not be extended. Where such duties are retained, they should be increased by twenty-five *per cent.*

The local Government asked for a reconsideration of the orders in respect of the districts in which the salt revenue demand falls short of Rs. 2,000, on the ground that they were calculated to operate harshly on the poorer sections of the community, who depend on the industry for their livelihood. It was accordingly decided to leave the matter to the discretion of the Government of Burma, but a hope was expressed that they would further the policy of adequate taxation and concentration of manufacture at every suitable opportunity.

3. (*b*) *Sind.*—In 1905 the Government of India accepted the proposal of the Government of Bombay to vest the control of the administration of the salt, excise and opium departments in Sind in the Commissioner in that province, and to provide him with an adequate combined establishment under a special Assistant Commissioner. A scheme to give effect to these arrangements was subsequently drawn up and was, in May 1907, recommended* to the Secretary of State, by whom it was sanctioned† in June 1907. The scheme contemplated a new appointment of a Superintendent on Rs. 250 a month and it was considered that, with the creation of that appointment, it would be possible to dispense with the post of second Assistant to the Chief Collector of Customs in Sind. The local Government, however, represented that the abolition of the latter appointment was impracticable and it has accordingly been decided,‡ with the Secretary of State's approval, § to retain it.

4. (*c*) *Baluchistan.*—In Part II, Chapter VII, paragraph 7 of the summary of Lord Curzon's administration reference was made to a decision arrived at in August 1905 to prohibit the manufacture of earth-salt in the Nasirabad tahsil of Baluchistan and to transfer the salt administration of that tahsil to the salt revenue authorities in Sind. It was contemplated that the transfer should take place on or before the 1st April 1906; but this could not be effected as the Agent to the Governor General in Baluchistan pressed for a reconsideration of the decision on various grounds. It was, however, decided,|| after a careful reconsideration of all the circumstances, to maintain the previous orders of 1905 and transfer the salt administration in Nasirabad with effect from the 1st April 1908.¶ The administration will be conducted under the provisions of the Northern India Salt Act, 1882, and the Agent to the Governor General will exercise his powers as a local Government subject to the advice of the Government of Bombay. As a consequence of this decision the local manufacture of earth-salt in Nasirabad and the importation into, and the transit over, the tahsil of such salt from the Kalat territory were prohibited.** By a subsequent modification of the orders, the last mentioned prohibition was cancelled†† and import is now permitted on payment of the ordinary rate of duty of one rupee a maund.

* Despatch to Secretary of State, No. 158, dated the 2nd May 1907.
† Despatch from Secretary of State, No. 91 (Revenue), dated the 14th June 1907.
‡ Despatch to Secretary of State, No. 28, dated the 23rd January 1908.
§ Despatch from Secretary of State, No 31 (Revenue), dated the 6th March 1908.
|| Letters Nos. 2591 and 2592-Exc., dated the 11th May 1906.
¶ Letter No. 274-Exc., dated the 14th January 1908.
** Notification No. 272-Exc., dated the 14th January 1908.
†† Notification No. 5102-Exc., dated the 7th October 1909.
Letter No. 5336-Exc., dated the 22nd October 1909.

5. (*d*) *Bihar.*—The control and supervision of the manufacture of saltpetre and the eduction of salt therefrom in Bihar have been in charge of the Northern India Salt Revenue Department since the eighties. The Bengal Government, in accordance with the policy which has been definitely approved by the Government of India, have had under preparation a scheme for the amalgamation of the salt and excise establishments in the province and, before submitting it, suggested that the refineries in question should be transferred to them. There was no ground for supposing the existence either of illicit manufacture or contraband trade on any extensive scale. The Government of India therefore accepted* the proposal and the local Government has been asked to draw up the amalgamation scheme on this basis.

6. (*e*) *Bengal.*—Prior to 1897 the bonding accommodation for salt in Calcutta was at Sulkea, on the Howrah side of the river Hughli. In that year the Port Commissioners devised a scheme for erecting additional salt golas at Kidderpore, their main object being to popularise the Kidderpore docks. In August 1908 the Government of Bengal represented that the docks had become so popular that the Port Commissioners required the site of the golas for other purposes, and submitted a plan for their removal to a new site at Munshiganj on the Calcutta side of the river. The Government of India accepted the scheme of reconstruction and obtained the sanction† of the Secretary of State to the acquisition of the necessary land. On further consideration, however, the local Government decided to abandon this measure, and to provide the necessary bonding accommodation by an extension of the golas at Sulkea. This proposal, which was expected to prove considerably cheaper than the original scheme, was sanctioned‡ by the Government of India, and measures for acquiring the new site were taken§ in February 1910.

7. (*f*) *Eastern Bengal and Assam.*—Measures were simultaneously being taken to extend the bonding accommodation at Chittagong. In May 1908, the Government of Eastern Bengal and Assam represented that the existing golas were inadequate to meet the growing needs of the trade in salt. The Port Trust was willing to take over the site on which they stood, and to give a suitable area in exchange for it. The local Government accordingly proposed to reconstruct the golas on the new site at an estimated cost of Rs. 8,68,085, which provided for the erection of three new warehouses with a storage capacity of 34,000 tons. The Government of India accepted|| the proposal in principle, but considered the cost to be excessive, and therefore suggested the construction, in the first instance, of two golas only, capable of holding 23,000 tons. A third could be built later, when the development of the trade rendered additional accommodation essential. As a condition of the relinquishment of the site, they stipulated that the existing jetties should continue to be utilised for the unloading of cargoes of salt. In accordance with these suggestions, the local Government submitted in September 1909 a revised estimate of Rs. 3,29,000 for the construction of two golas, and this received the sanction of the Government of India.

8. (*g*) *Madras*—In August 1909 the Government of Madras expressed themselves as dissatisfied with the existing method of recruitment of Assistant

* Letter No. 5660-Exc., dated the 10th September 1907.
† Telegram to the Secretary of State for India, No. 5857-Exc., dated the 13th October 1908.
Telegram from the Secretary of State for India No. 50, dated the 27th October 1908.
Telegram to the Government of Bengal, No. 6251-Exc., dated the 31st October 1908.
‡ Letter No. 2779-Exc., dated the 3rd June 909.
§ Letter No. 956-Exc., dated the 23rd February 1910.
|| Letter No. 902-Exc., dated the 16th February 1909.

and Deputy Commissioners for the Salt, Abkari and Customs Departments. To secure a better class of recruit, they proposed to fill in future two-thirds of the vacancies in the grade of Assistant Commissioner by special appointment from outside the Department, leaving the remaining one-third only for promoted subordinates. Of the special recruits, one half should be statutory natives of India, enrolled locally, and the rest should be Europeans appointed in England by the Secretary of State. The Government of India approved* of the principle of special selection proposed by the local Government, but rejected the suggestion of recruitment in England.

9. *Miscellaneous: Output of the Sambhar Lake.*—An enquiry, which was commenced in the year 1902, into the sources and permanence of the salt supply of the Sambhar Lake, has now been completed; the results obtained† may be stated briefly as follows :—

(1) There is practically an unlimited supply of salt in the Sambhar Lake, the total stocks in the upper 12 feet of salt in the lake bed being estimated to amount to nearly 54,000,000 tons.

(2) In the salt deposits in the lake bed sodium sulphate and sodium carbonate occur associated with sodium chloride and the practice hitherto in force of manufacturing and removing only salt of the description last mentioned tends to increase the proportion of the first two, thereby increasing to a certain extent the difficulty of manufacturing pure sodium chloride. Although, however, this increase of the accessory salts is real, it does not follow that it is sufficiently rapid to cause appreciable degeneration of the quality of the lake brine for the next century.

(3) The main difficulty in the way of manufacturing salt will probably be due to a general rise of the surface of the lake bed owing to the inflow of sand and silt and variations in the monsoon.

(4) A greater use might be made of the subterranean brine in the lake in the manufacture of salt, and the prejudice which has hitherto existed against the use of such brine as tending to produce an inferior quality of salt is unfounded. Such use, on the other hand, is calculated to ensure not only a sufficient but a uniform supply of salt throughout the year.

10. *Amendment of the Northern India Salt Act, 1882.*—In connection with the question of the revision of the salt law in Bengal which had been under the consideration of the local Government for some time, it was represented that, if the preventive and penal provisions of Act XII of 1882 (which had been applied concurrently with the Bengal Act, VII of 1864, to the littoral districts) were amended in certain respects, it would remove numerous difficulties experienced in the administration of the salt revenue in the province. The amendments proposed by the Government of Bengal appeared to be desirable not only in the case of that particular province, but also in the case of the other provinces to which the Act applies. It has therefore been decided,‡ subject to the approval of the Secretary of State, to undertake legislation in order to give effect to the local Government's recommendations and it is also proposed to take advantage of the opportunity thus afforded to amend the Act in other respects in which it has been found to be defective.

* Letter No. 5909-Exc., dated the 24th November 1909.
† Note by the Director of Geological Survey, dated the 25th March 1907.
‡ Letters Nos. 3462 and 3463-Exc., dated the 3rd June 1907.

The Act will therefore be entirely repealed and re-enacted with the necessary amendments.

11. *Introduction of a credit system for the payment of duty on salt.*—In Part II, Chapter VII, sub-paragraph 2 of paragraph 3 of the summary of Lord Curzon's administration, reference was made to a proposal to introduce into Bengal a credit system for the payment of duty on salt, such as obtains in Madras and Bombay. As, however, this system has been found of value in facilitating the distribution of salt and in reducing its price to the consumer, the Government of India, with the approval of the Secretary of State, decided* not to restrict it to Bengal as at first contemplated, but to allow any local Government to adopt it subject to the necessary rules and conditions. A Bill was accordingly introduced in the Imperial Council to give effect to the proposal and was passed on the 11th September 1908. The system was brought into force in Bengal and Eastern Bengal and Assam with effect from April 1909.

12. *Reduction of railway freight charges for the conveyance of salt.*—In June 1907, it was decided† to make certain reductions, with effect from the 1st December 1907, in the rates charged for the carriage of salt by railways, in order that the freight might be more in keeping with the value of the commodity carried and also still further to cheapen the cost of salt to the consumer. In the case of State Railways the reduction was definitely ordered, while the Companies were requested to make similar reductions on their lines. The Bombay, Baroda and Central India Railway, however, submitted a protest to the Secretary of State against the proposal and the latter adversely criticized the orders passed by the Government of India. It was therefore decided,‡ in November 1907, to postpone the introduction of the reduced rates for six months till the 1st June 1908, and to obtain the views of all the Railway Companies concerned. Most of the Railway Companies expressed themselves opposed to any reduction on the ground that, while the reduced rates would more or less seriously affect their earnings, the reduction in the sale price of salt to the consumer would practically be *nil*. It was accordingly decided§ to withdraw the orders of June 1907 for the reduction of freight charges.

13. *Gwalior, Ratlam, Jaora, Sitamau and Sailana.*—In 1904, it came to the notice‖ of the Government of India that the Maharaja of Gwalior levied a duty of 4 annas 6 pies a maund on salt imported into his territory and that the States of Ratlam, Jaora, Sitamau and Sailana likewise imposed a duty of about 2 annas 5 pies a maund on evported salt in contravention of the salt agreements entered into with those States. As a result of the enquiries which were instituted,¶ the Gwalior Durbar abolished the duty on rock and black salts—the only salts subjected to import duty in that State—while the other States similarly abolished the import and export duties levied in their respective territories.

* Despatch to Secretary of State, No. 10, dated the 9th January 1908.
Despatch from Secretary of State, No. 23-Rev., dated the 28th February 1908.
† Railway Board Resolution No. 462-R. T., dated the 20th June 1907.
‡ Railway Board telegram No. 1337-R. T., dated the 2nd November 1907.
§ Railway Board letter No. 1081-R. T., dated the 15th June 1908.
‖ Foreign Department letter No. 1280-I. B., dated the 8th April 1905.
¶ Foreign Department letter No. 2947-I. B., dated the 18th July 1906, and Finance Department letter No. 4118 Exc., dated the 14th July 1908.

CHAPTER VII.

INCOME TAX AND STAMPS.

Income tax: Administration.—In October 1904 it was brought to notice by the Government of Madras that the general practice of the law courts in that presidency was to require the production by revenue officers in civil courts of income tax records, it being held that such documents are not evidence relating to " affairs of State " within the meaning of section 123 of the Indian Evidence Act, and that the provisions of section 124 of that Act also are not applicable to them. Enquiry showed that the practice prevails to a certain extent in other provinces also, and as it was considered to be open to objection that litigants should be able to compel public officers to disclose information confidentially acquired regarding the pecuniary affairs of private persons, the question of amending the Income Tax Act in order to protect the documents in question from production in civil courts was referred* to the Secretary of State in November 1906. In January 1907 that authority sanctioned† the proposed legislation, on the condition that power would be given to the courts, though in a restricted form, to call for income tax documents as evidence in cases in which they considered the production of such documents to be necessary in the interests of justice. In view, however, of the fact that any change in the law short of absolute prohibition would not materially alter the existing position as regards the production of income tax documents in courts, it has been decided not to proceed with the measure. Meanwhile the Government of Madras on the strength of the Advocate General's opinion had instructed their revenue officers, when summoned to produce income tax documents, to refuse to bring them to court and to plead privilege under section 124 of the Evidence Act. In due course the whole question came before the Madras High Court, who gave the following authoritative ruling on the subject, which was in February 1909 confidentially communicated‡ to all local Governments and Administrations :—

(*a*) A revenue officer must attend and produce income tax documents in court when summoned so to do.

(*b*) The documents do not relate to affairs of State, and are not privileged under section 123 of the Evidence Act, 1872.

(*c*) The court is entitled to inspect the documents.

(*d*) The court, and not the public officer, decides whether the information contained in the documents was communicated in official confidence.

(*e*) The rules imposing secrecy on income tax officials do not override the legal obligation on those officers to put their information before the courts.

2. In September 1909 the Resident in Mysore referred for the orders of the Government of India the following points which had arisen in connection with an appeal preferred by one Mr. Hajee Ismail Sait of Bangalore in the matter of his assessment to income tax during the year 1908-09 :—

(1) Whether income tax was leviable in respect of the whole or any part of a sum due to the assessee on account of the sale of certain

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* Despatch to Secretary of State, No. 390, dated the 1st November 1906.
† Despatch from Secretary of State, No. 9 (Financial), dated the 18th January 1907.
‡ Letter No 588-Exe., dated the 2nd February 1909.

shares held by him in a Manganese Company in Mysore which was remitted to his credit with a bank in Madras, and applied, in part, by the bank to the discharge of a debt owed to it by a branch of the assessee's firm located in Mysore territory.

(2) Whether the First Assistant Resident had power, as Commissioner of Income Tax, to enhance the Collector's assessment on an appeal preferred by the assessee under section 27 of the Income Tax Act, 1886.

(3) Whether the income specified above, which was earned in the year 1907-08, could be taxed in the following year.

With reference to the first point, it was held* by the Government of India that the whole sum remitted to the petitioner's credit in Madras was "income" received there within the meaning of section 3 (5) of the Income Tax Act, and was therefore assessable to income tax by the local Collector As regards the other two points, the Honourable the Advocate General of Bengal was of opinion that the enhancement by the Commissioner of the Collector's assessment on the appeal preferred by the petitioner was within the powers of the former authority, and that the assessment in the year 1908-09 was also valid in the case under reference.

3. *Exemptions from taxation.*—(1) In March 1906 the Government ruled† that income tax should not be levied on compassionate gratuities granted to the families of deserving Government sesvants left in indigent circumstances.

(2) In June 1906 the rules and exemptions under the Income Tax Act, 1886, which are in force in British India, were applied‡ to Berar.

(3) Under the rules a certain class of Service Funds is allowed exemption from the payment of the tax in respect of securities held by it. It was, however, formerly part of the definition of a "Service Fund" that its funds must either be deposited with the Government or invested in Government securities. In practice certain Provident Funds, which did not conform to this condition, had been allowed the exemption, and in April 1907 orders were issued§ regularizing the exemption in these cases by omitting from the definition the restrictive clause mentioned above.

(4) In the same month it was also laid down‖ that insurance premia and subscriptions to recognised Provident and Service Funds shall, in so far as they are paid in India by officers employed in India, be exempt from income tax up to a limit of $\frac{1}{6}$th of the salary drawn by the officer concerned in India during the financial year in question.

(5) In March 1908 it was decided¶ to allow deductions in the Bombay Presidency on account of Municipal, water and conservancy taxes in determining the net profits of a company for assessment to income tax under Part II of the second Schedule to the Income Tax Act, 1886.

(6) In February 1909 it was decided** on a reference from the Government of Madras that the allowances paid out of the income of an impartible estate to the brothers of the proprietor of that estate for the time being are exempt from income tax under section 5 (1) (*a*) of the Income Tax Act, 1886.

* Letter No. 3155-Exc., dated the 20th June 1910.
† Circular letter No. 1699-Exc., dated the 24th March 1906.
‡ Notification No. 3432-Exc., dated the 19th June 1906.
§ Notification No. 2503-Exc., dated the 25th April 1907.
‖ Letter No. 2251-Exc., dated the 17th April 1907.
¶ Letter No. 1355-Exc., dated the 5th March 1908.
** Letter No. 708-Exc., dated the 8th February 1909.

(7) In October 1909 exemption was extended* to leave allowances and pensions in cases where a private employer is bound under the terms of a contract, or has elected as a general measure, to make payment to his *employés* in England.

4. *Stamps: Amendment of the law.*—The Bill to amend the Indian Stamp Act, 1899, by revising the rates of stamp duty payable on fire insurance policies, to which reference was made in Part II, Chapter VIII, paragraph 6 of the summary of Lord Curzon's administration, was approved by the Secretary of State in December 1905, and was passed in March 1906. While the Bill was under consideration, it was found necessary to amend and add to its provisions in certain respects, and the following measures were contained in the Bill as it was finally passed :—

(1) The duty on fire insurance policies was considerably reduced, the duty on all original policies being fixed at eight annas when the sum insured does not exceed Rs. 5,000, and at one rupee in every other case, while the duty on the payment of premia on renewals of policies was fixed at half these rates. The liability to stamp the policies and receipts was imposed upon the companies who issue them.

(2) An existing but unauthorised practice of dividing the stamp duty payable on marine insurance policies between copies drawn in duplicate was legalised. The duty, which will now be leviable on each part of the policies in question, when so drawn in duplicate, will in some cases be only half an anna, and provision was therefore also made for the use of a half-anna stamp as an adhesive stamp under the Act.

(3) Certain other minor concessions (to which effect had previously been given by means of executive orders) were embodied in the law. These related (*a*) to the admission of private banking firms to the benefit allowed by section 51 of the Act in regard to the value of unused stamped papers, (*b*) to a general exemption from duty of copies of, or extracts from, certificates relating to births, baptisms, namings, dedications, marriages, deaths or burials, and (*c*) to the reduction of duty on mortgages of crops when the loan is repayable in more than twelve but not more than eighteen months.

5. Both the Stamp Act and the Court Fees Act were amended in connection with the budget of 1910-11. The change was made for purely fiscal reasons, in order to secure additional revenue from stamp duties. This was effected, in the case of taxes levied under the Court Fees Act, by enhancing the duty on the probate of a will or letters of administration, and on certificates under the Bombay Regulation No. VIII of 1827. On each of these documents the duty was raised from 2 to 2½ *per cent.* for estates valued at from Rs. 10,000 to Rs. 50,000, and to 3 *per cent.* where estates of greater value were concerned. The changes made under the Stamp Act were more extensive. The existing duty was doubled in the case of (*a*) issue of debentures by a local body, (*b*) debentures transferable by delivery, (*c*) share warrants to bearer issued under the Indian Companies Act and (*d*) transfers of shares and debentures. Enhancements were made also on the following instruments :—

(*a*) An agreement or memorandum of agreement relating to the sale of Government securities, shares or bills of exchange; (*b*) bills of exchange and promissory notes; and (*c*) a note or memorandum

* Letter No. 4994-Exc., dated the 14th October 1909.

sent by a broker or agent to his principal, announcing the purchase or sale of goods or of any stock or marketable security exceeding twenty rupees in value.

6. *Extent of application.*—In 1906 the Indian Stamp Act, 1899, was applied* to the following administered areas in native states :—

Abu and Anadra.

The cantonments of Mhow, Neemuch, Nowgong, Agar, Guna, Sehore Sirdarpur and Sutna, and the Indore Residency Bazars.

The cantonments of Deesa and Bhuj.

The cantonment of Baroda.

The railway lands in Central India and Rajputana.

7. *Revision of rules and application thereof to certain administered areas.*—(1) In June 1906 revised consolidated rules under the Act were published† in supersession of the old rules of 1899 which had undergone revision in various respects. Later on the revised rules were applied,‡ with the necessary modifications, to the following administered areas in native states :—

The Agency territories in Baluchistan.

The Civil and Military Station of Bangalore.

The cantonments of Deesa and Bhuj.

Abu and Anadra.

The railway lands in Rajputana.

The cantonment of Baroda.

The cantonments of Mhow, Neemuch and Nowgong and the Indore Residency Bazars and the railway lands in Central India.

The areas under the jurisdiction of the Resident at Hyderabad.

Berar.

(2) The rules were amended in April 1910,§ as a convenience to the public, in order to allow the use of share transfer stamps on transfers of debentures issued by public companies and associations.

(3) In February 1910 revised rules for the custody, supply and sale of general, court-fee and postage stamps were published.‖ The revision was rendered necessary by the abolition of telegraph stamps and the adoption of postage stamps for telegraph purposes, and the opportunity was taken of consolidating the existing rules, which had been amended in various respects since their promulgation in 1905.

8. *Remissions and reductions of duty.*—(1) Under Article 5 (*b*) of Schedule I of the Indian Stamp Act, 1899, the duty payable on an agreement or memorandum of an agreement for service or for performance of work on business estates is eight annas in each case, irrespective of the value of the consideration for which the agreement is made. This duty had, in the case of agreements for service or for performance of work on coffee plantations in the Madras Presidency, Coorg and Mysore, been reduced by executive order to one anna, when the advance given under the agreement does

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* Foreign Department Notifications No. 1389-I.B., dated the 13th April 1906, and No. 3777-I.B., dated the 7th September 1906.

† Notification No. 3632-Exc., dated the 29th June 1906.

‡ Foreign Department Notifications No. 3693-F., dated the 30th November 1906; No. 4870-I.A., dated the 7th December 1906; No. 58-I.A., dated the 4th January 1907; No. 623-I.A., dated the 15th February 1907; No. 2972-I.B., dated the 2nd August 1907; Nos. 3097-I.B. and 3098-I.B., dated the 9th August 1907; and Nos. 943-I.B. and 944-I.B., dated the 19th May 1910.

§ Notification No. 2147-Exc., dated the 28th April 1910.

‖ Resolution No. 559-Exc., dated the 8th February 1910.

not exceed Rs. 20. In 1905 it was requested by the United Planters' Association of Southern India, who were supported by the Madras Government, (*i*) that the concession might be extended to all estates as defined in the Madras Planters' Labour Act, 1903 (Madras Act I of 1903), and (*ii*) that the reduction of duty might be made applicable to agreements under which the advance given does not exceed Rs. 50. After consulting the other local Governments and Administrations concerned, it was decided* in June 1906 to apply the reduced duty of one anna to the case of all agreements for service or for performance of work in any estate not less than 10 acres in extent, situated in British India or in Mysore, which is being prepared for the production of, or actually produces, tea, coffee, rubber, pepper, cardamom or cinchona, where the advance given under such agreement does not exceed fifty rupees.

(2) In October 1906 a remission was sanctioned† in respect of the court fees chargeable on applications presented to Collectors, or other revenue officers having jurisdiction equal or subordinate to Collectors, for advice or assistance from the Agricultural Department.

(3) In December 1906 instruments executed by inamdars in the Bombay Presidency, whereby they undertook to suspend or remit rents due to them from their tenants in consideration of a suspension or remission granted by Government in respect of their own quit-rents, were exempted‡ from the payment of stamp duty.

(4) In January 1907 a similar exemption was granted§ in respect of mortgage deeds executed by officers of Government to secure the repayment of advances received from Government for the purpose of constructing or purchasing dwelling houses for themselves.

(5) In July 1907 a remission was sanctioned‖ in respect of the stamp duty chargeable on instruments executed by members of the Mundari and other aboriginal tribes of the Ranchi district as security for the repayment of advances received from Government for the purpose of redeeming their holdings.

(6) In August 1907 a remission was granted¶ in respect of the duty chargeable on deeds of reconveyance of mortgaged property executed by Government in favour of officers on repayment of advances received from Government for the construction or purchase of dwelling houses.

(7) In October 1907** and April†† and July‡‡ 1908 the duty leviable on any trust deed executed in compliance with the rules in force in the Punjab, Bengal and Eastern Bengal and Assam, regulating grants-in-aid made by Government for building purposes to aided schools and colleges, was reduced to the amount payable on a bond for the like sum or value or to Rs. 15, whichever should be less.

(8) In March 1908 sanction was accorded§§ to a remission of the duty chargeable on receipts for advances exceeding Rs. 20 made for seeds, etc., under the Agriculturists' Loans Act, 1884.

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* Notification No. 3238-Exc., dated the 13th June 1906.
† Notification No. 6069-Exc., dated the 26th October 1906.
‡ Notification No. 7121-Exc., dated the 20th December 1906.
§ Notification No. 10-Exc., dated the 2nd January 1907.
‖ Notification No. 4483-Exc., dated the 17th July 1907.
¶ Notification No. 4976-Exc., dated the 9th August 1907.
** Notification No. 6358-Exc., dated the 11th October 1907.
†† Notification No. 2006-Exc., dated the 4th April 1908.
‡‡ Notification No. 4073 Exc., dated the 10th July 1908.
§§ Notification No. 1474-Exc., dated the 10th March 1908.

(9) In May 1908 the duty leviable on any agreement which had been or might be contracted under rules regulating the deposit of regimental funds with private banks or firms was reduced* to the amount payable on a bond for the like sum or value or to Rs. 5, whichever should be less.

(10) In June 1908 certain concessions allowed to Railway Companies and Administrations in respect of exemption from payment of stamp duty (*e.g.*, on tickets issued by them) were extended† to Inland Steamer Companies.

(11) In July 1908 orders‡ were issued exempting from the payment of further stamp duty all instruments executed in the areas under British jurisdiction in the Native States of India to which the Indian Stamp Act, 1899, has been applied, when presented or received in British India, and *vice versâ*.

(12) In August 1908 a remission was allowed§ in respect of the court fees chargeable on applications made by distillers and warehouse keepers in the Bombay Presidency to the Excise officer in charge of the distillery or warehouse for the issue of a permit for the transport of country spirits.

(13) In May 1909 sanction was accorded‖ to the remission of court fees chargeable on plaints instituted before a Collector under sections 55, 56, 95, 112, 144 and 160 of the Madras Estates Land Act.

(14) In July 1909, the fee on applications for the settlement of a fair rent, made under section 85 of the Chota Nagpur Tenancy Act, was reduced¶ to eight annas for each tenant making or joining in the application, a group of joint owners of a tenancy being treated for this purpose as a single tenant.

(15) In November 1909 remission was granted** of the court fees chargeable on certified copies of entries in records-of-rights furnished in accordance with any rules for the time being in force under the Chota Nagpur Tenancy Act, 1908, after the final publication of such records under section 83 (2) of that Act.

(16) In the same month sanction†† was given to the reduction, with effect from the 1st April 1910, of the duty chargeable on a policy of sea insurance to one anna, if drawn singly, and to half an anna for each part, if drawn in duplicate, in respect of every full sum of Rs. 1,500 or fractional part of Rs. 1,500 insured by the policy.

(17) In February 1910, the fees chargeable on applications for mutation of names in all Government estates in the districts of the Dacca, Chittagong and Rajshahi Divisions of Eastern Bengal and Assam were remitted.‡‡

(18) In March 1910, a remission was granted§§ in respect of the fees chargeable on applications or petitions of objection referring to any entry made, or proposed to be made, in draft records prepared under chapters XII to XV of the Chota Nagpur Tenancy Act, 1908; provided that such applications or petitions are presented before the publication of the records.

(19) In April 1910, orders were issued exempting‖‖ from the payment of stamp duty agreements of the kinds described in section 47 (*a*) of the North-Western Provinces Tenancy Act, 1901, with respect to the enhancement of the rent of a non-occupancy tenant.

* Notification No. 2937-Exc., dated the 18th May 1908.
† Notification No. 3566-Exc., dated the 16th June 1908.
‡ Notifications Nos. 4044 and 4045-Exc., dated the 10th July 1908.
§ Notification No. 4772-Exc., dated the 13th August 1908.
‖ Notification No 2419-Exc., dated the 12th May 1909.
¶ Notification No. 3893-Exc., dated the 30th July 1909.
** Notification No. 5919-Exc., dated the 23rd November 1909.
†† Notification No. 5791-Exc., dated the 26th November 1909.
‡‡ Notification No 577-Exc., dated the 2nd February 1910.
§§ Notification No. 1467-Exc., dated the 17th March 1910.
‖‖ Notification No. 2145-Exc., dated the 29th April 1910.

(20) In the same month, instruments executed by landlords in the Bombay Presidency, whereby they agree to remit rent due from their tenants in consideration of a remission granted by the Government in respect of their own rents, were similarly exempted.*

(21) In May 1910 a remission was sanctioned† in respect of the court fees chargeable on copies of documents furnished by a District Magistrate in the Central Provinces to a pleader appointed by the court to defend a pauper accused of murder.

9. *General.*—In November 1905 orders were issued for the abandonment of the separate triennial reports on the administration of Income Tax and Stamps which were previously received from the North-West Frontier Province. The annual statistical returns showing the results of the working of the two Departments will, however, continue to be submitted as usual.

10. With effect from the 1st April 1907 it was decided‡ to discontinue the grant of discount at $\frac{1}{4}$ anna in the rupee which had previously been allowed on the sale of postage stamps and postal stationery by postal officers, licensed vendors of general stamps and other persons especially authorised in that behalf.

11. Under orders issued in 1880 indents for stamps required for supply during a particular year were calculated on the basis of an assumed average or standard of consumption during the three preceding completed financial years. It was brought to notice in 1906 that this method of calculation made inadequate provision for the actual consumption of the year for which the indent was framed and thus led in some cases to the maintenance of insufficient stocks of stamps. It was accordingly directed in May 1907§ that indents should in future be framed on the basis of the probable estimated demand of the year to which they related, and that in cases in which known facts pointed to the probability of an increased consumption in the future, or to the maintenance of demands on a higher scale than was usual, the necessary provision for increased stock should be made.

12. On the recommendation of the local Government the scale of pay of the establishment in the Bombay Stamp Office has been revised. The posts of Assistant Superintendent of Stamps and Stationery have, with the approval of the Secretary of State, been amalgamated‖ and the pay of the combined appointment raised to Rs. 600—40—800.

13. In April 1908 it was decided¶ to delegate to the District Officer the power (*i*) to appoint the treasurer, sub-treasurer or such other officer as might be considered desirable as *ex-officio* vendor of all descriptions of stamps at a local or branch stamp depôt, and (*ii*) to direct that sales to the public of general and court fee stamps by *ex-officio* vendors should be limited to stamps of a value higher than a named amount.

14. In August 1908 local Governments and Administrations were authorised** to allow refunds or renewals of spoilt or useless non-judicial stamps, without any time limit, and to delegate the above power to any subordinate authority not below the rank of Collector or Deputy Commissioner of

* Notification No. 2191-Exc., dated the 29th April 1910.
† Notification No. 2724-Exc., dated the 27th May 1910.
‡ Commerce and Industry Department letter No. 934—314, dated the 26th January 1907.
§ Letter No. 2975-Exc., dated the 23rd May 1907.
‖ Despatch to Secretary of State, No. 436, dated the 12th December 1907.
Despatch from Secretary of State, No. 12 (Public), dated the 31st January 1908.
¶ Resolution No. 2454-Exc., dated the 29th April 1908.
** Resolution No. 4738-Exc., dated the 14th August 1908.

a district, subject to such time limit, not exceeding two years, as might appear to them to be suitable.

15. In October 1908 it was decided* that for the purpose of section 19E of the Court Fees Act, 1870, the authority dealing with a question of understatement of value, whether by fraud, negligence or mistake, should have regard only to the value of the estate at the time of application for probate; and that the fact of an estate being subsequently found to have a higher value than that declared should be regarded as material only in so far as proof of higher value at a later date might be evidence of understatement of the value on the earlier date. In March 1909 it was further ruled† that the case for refunds under section 19A of the Act stands on the same footing as that for exactions of deficiency under section 19E.

* Letter No. 5906-Exc., dated the 17th October 1908.
† Letter No. 1613-Exc., dated the 27th March 1909.

CHAPTER VIII.

ACCOUNT OFFICERS AND AUDIT.

1. *Formation of the Indian Finance Department.*—The principal event of the period in connection with the Account and Audit arrangements of the Government of India has been the amalgamation of the Superior Accounts branch of the Public Works Department with the Enrolled List of the Finance Department. The combined service will in future be known as the Indian Finance Department. Under the previous system, the administrative control of the officers engaged in the audit of Public Works and Railway accounts had been vested in the Public Works Department, while the remainder of the civil audit had been entrusted to the Civil Accounts Department, which was manned by the Enrolled List. The desirability of concentrating all civil audit operations in the hands of the Finance Department had already commended itself to Government, and this view received support from the recommendations of the Royal Commission on Decentralisation. It was considered that the existing system led to duplication of work in the compilation of accounts, the preparation of codes and the promulgation of financial rulings; while it tended to obscure the true position of Public Works revenue and expenditure as an integral part of the general finances of a local Government. Amalgamation, while it would obviate these defects, would give to audit officers a wider outlook and a more varied experience of accounts, and, by its offer of a larger number of appointments for competition at one time, might be expected to operate to attract a better class of recruit. The Secretary* of State accepted the views of the Government† of India in this matter, and the main features of the scheme have already been introduced, though many of the details still await settlement. The Comptroller and Auditor General is now in administrative charge of the amalgamated services, the post of Accountant General, Public Works Department, having been abolished. The officers engaged in Railway Audit form a separate branch of the Department, under the immediate orders of an Accountant General, Railways, but subject to the control of the Comptroller General. It is not possible to proceed at once to a complete amalgamation of the *personnel* of the two branches, but this is contemplated as an ultimate object. Meanwhile, all recruitment for the combined service will be made on one and the same list; and arrangements have been completed for the assimilation of rates of pay in all grades of the two branches.

2. *Reorganisation of the Enrolled List of the Finance Department.*—Prior to the amalgamation, an important change had been made in the grading and salaries of officers of the Enrolled List. The appointments in this list had formerly been distributed among seven classes, on pay ranging from Rs. 200 to Rs. 1,500 a month. It was found, however, that a system under which an officer's substantive pay was increased only by promotion depending upon the occurrence of a vacancy was unsuitable to so small a service, in which irregularities in the rate of recruitment are very liable to cause serious blocks in promotion. A system of increase of salary regulated to a greater extent by length of service was accordingly substituted for the

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* Telegram from the Secretary of State, dated the 4th May 1910.
† Despatch to the Secretary of State, No. 57, dated the 3rd March 1910.

previous arrangement. The main feature of the new scheme was a distribution of the officers of the list into the following four classes* :—

Class I.— 6 Officers (including one Civilian) on Rs. 1,500—60—1,800.
Class II.— 4 Officers (all Civilians) on Rs. 1,000—100—1,200.
Class III.—46 Officers on Rs. 300—50—1,500.
Class IV.— 5 Probationers on Rs. 300 (average).

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At the same time, it was prescribed that new entrants to the department, whether Civilian or non-Civilian, should not draw exchange compensation allowance, either as enrolled officers or as Accountants General. Present incumbents were offered the alternatives of remaining on the old scale or of electing the time scale, the option to be exercised within one year from the 22nd June 1906. The great majority preferred to make the change.

3. *Extension of a similar system to the officers of the old Public Works Accounts branch.*—Simultaneously with the amalgamation of the two services, a very similar scheme of re-organisation was drawn up for the benefit of the officers who had previously been borne on the list of the Public Works Accounts branch. Omitting from consideration the Accountant General, Public Works Department, these officers had formerly been distributed over nine grades, rising from Assistant Examiner on Rs. 250 to Examiner, Class I, on Rs. 1,500—60—1,800. The latter class has been retained, to correspond with Class I of the Enrolled List, and the rest of the staff will be offered a time-scale similar to that prescribed for Class III of that list. There will thus be two grades only on the Public Works side of the new department :—

Class I.— 6 Examiners, Class I, on Rs. 1,500—60—1,800.
Class II.—81 Officers on Rs. 300—50—1,500.

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The option of retaining the present scale will be offered to officers already in the department, but all future entrants will be required to serve on the time-scale of pay. An integral part of the revision is the withdrawal of exchange compensation allowance from such officers below the rank of Examiner, Class I, as elect the new scale.

4. *Recruitment of the combined service.*—Up to the year 1897, the appointments in the Enrolled List which are not reserved for members of the Indian Civil Service were filled in India, either by competitive examination or by promotion of subordinates. In that year it was decided,† with the Secretary‡ of State's sanction, to discontinue the practice of recruiting Europeans in this country, and to nominate from England all officers of that nationality who might be required. Indians alone were thenceforward to be appointed in India. While the system has worked satisfactorily, it has been found to lead to an undue preponderance of Europeans in the list. To obviate this defect, the Government§ of India in January 1909 obtained the

* Despatch from the Secretary of State, No. 51 (Financial), dated the 11th May 1906.
† Despatch to the Secretary of State, No. 324, dated the 4th November 1896.
‡ Despatch from the Secretary of State, No. 104 (Financial), dated the 17th June 1897.
§ Despatch to the Secretary of State, No. 26 (Financial), dated the 28th January 1990.

consent of the Secretary* of State to proposals for such a regulation of recruitment as will ensure, in future, an equal distribution of appointments between the two nationalities. In future both branches of the Indian Finance Department will be recruited on one list.

5. *Amalgamation of Postal and Telegraph Accounts.*—Up to the year 1910, the audit of the accounts of the Telegraph Department had been conducted by the Public Works Accounts branch, while that of the Post Office had been in the hands of the Civil Accounts officers. On the recommendation of the Telegraph Committee, it was decided† to combine the two audit establishments under one Accountant General; and the Secretary‡ of State's sanction to the scheme was accorded early in the year 1910. The combined establishment now forms a portion of the new Indian Finance Department, and is subject to the general control of the Comptroller and Auditor General. The amalgamation is expected to result in a considerable saving of time and labour, as well as in economy of establishment. In connection with the change, occasion was taken to relieve the account office of work which it had previously performed in relation to the investigation of faults and complaints regarding message traffic.

6. *Increase of the salary and powers of the Comptroller and Auditor General.*—In view of the increasing importance of the currency and exchange operations of Government, on which their chief adviser is the Comptroller and Auditor General, the Secretary§ of State agreed to the enhancement of the pay of that appointment with effect from the 24th March 1907. The rate had previously been fixed at Rs. 3,500, and it was now decided that it should rise by annual increments of Rs. 100 from that sum as a minimum to a maximum of Rs. 4,000. In 1908 Government considered the advisability of granting increased powers in connection with appointments to the Comptroller and Auditor General. Although that officer is the immediate administrative head of the Civil Accounts Department, he was at that time required to submit for the approval of the Government of India all proposals affecting the posting, transfer or leave of the gazetted officers subordinate to him. It was decided, as a measure of decentralisation, to delegate to him considerable authority in this respect. With effect from the 1st‖ January 1909, he was granted full power to dispose finally of all such matters in the case of officers of the Enrolled List of and below the rank of Deputy Accountant General: the only reservations being that instances of refusal of leave should continue to be referred for orders, and that Government should invariably be consulted before leave is granted to a Civilian officer of the list if recruitment to fill the vacancy is necessary.

7. *Creation of new posts of Accountant General.*—Three new posts of Accountant General have been created during the period. The partition of Bengal led to the conversion on the 16th October 1905 of the office of Comptroller, Assam, into that of Accountant General¶ for the new province. With the amalgamation of the Postal and Telegraph Accounts, a new appointment of Accountant General in charge of the combined office was instituted; and a third post of Accountant General, Railways, has now come into being

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* Despatch from the Secretary of State, No. 146, dated the 17th December 1909.
† Despatch to the Secretary of State, No. 269 (Financial), dated the 18th November 1909.
‡ Despatch from the Secretary of State, No. 23 (Financial), dated the 15th February 1910.
§ Despatch from the Secretary of State, No. 33 (Financial), dated the 8th March 1907.
‖ Finance Department Resolution No. 7151-F. O. & A., dated the 24th December 1908.
¶ Despatch to the Secretary of State, No. 292 (Financial), dated the 9th August 1906, and from Secretary of State, No. 129 (Financial), dated the 9th November 1906.

in place of the two appointments of Accountant General, Public Works Department, and Railway Accounts officer. The last-mentioned addition, which has been made to Class II of the cadre, is temporary only and will last in the first instance for two years. The two permanent additions both rank in Class III. Of the nine posts of Accountant General now existing, four continue, as before, reserved for Civilians, and the remaining five will, if the Secretary of State sanctions proposals which have recently been submitted to him, be open to suitable non-Civilians.

8. *Audit arrangements.*—In August 1906,* the system of local audit in force in Eastern Bengal was extended to all local funds in Assam, including cantonment and cantonment hospital funds, except as regards the expenditure by local boards on public works, for which the existing system, under which the boards' public works accounts were audited by the Examiner of Public Works Accounts, was retained.

In the same year, the system of peripatetic local audit was extended to the accounts of local boards, cantonment funds and cantonment hospital funds in Bombay. An officer was added to the Enrolled List to be placed in charge of the work, and the appointment of Chief Superintendent in charge of Outside Audits, Bombay, was abolished as no longer required†. A second appointment of Chief Superintendent was at the same time created for Burma.

The accounts of the Post Office have hitherto been audited at three centres,—Calcutta, Delhi and Nagpur. The volume of work which devolved on the last-mentioned office called for some relief, and in April 1908 the Government of India obtained the sanction of the Secretary of State to the formation of a new office of Postal Audit in Madras.‡

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* Government of India letter (Finance) No. 4738-A., dated the 22nd August 1906.
† Secretary of State's despatch No. 140 (Financial), dated the 23rd November 1906.
‡ Despatch to the Secretary of State, No. 62 (Financial), dated the 27th February 1908.

CHAPTER IX.

MISCELLANEOUS.

1. *The Mints.*—The great and apparently increasing extent of the operations of the Bombay and Calcutta Mints rendered it desirable that a specially trained officer should be kept in reserve to be ready at any time to take up the duties of one of the Mint Masters. The appointment of a Deputy Mint Master on a pay of Rs. 1,250-50-1,500 a month was accordingly sanctioned* by the Secretary of State.

2. In view of the great advance made in the science of Chemistry, Assaying and Metallurgy since the course of training for candidates for the Assay Department was prescribed 22 years ago, certain changes were effected† in the curriculum of studies for admission to that department. The period of training in England was prolonged to 9½ months.

3. The emoluments‡ of the commissioned officers employed in the Assay Deparment being considered inadequate, the following improvements were notified :—

(1) An officer officiating as a Deputy Assay Master shall draw the pay to which he would be entitled if he held the appointment permanently.

(2) After two years, four years and six years from the date of attaining pay at Rs. 1,200 a month, a Deputy Assay Master shall receive Rs. 1,300, Rs. 1,400 and Rs. 1,500 a month respectively.

(3) With effect from the 1st of November 1907, the Assay Master and Deputy Assay Master, Calcutta (if they are personally eligible) shall be admitted to the benefits of the Calcutta House Allowance Scheme.

4. *Exchange Compensation Allowance.*—In pursuance of the policy explained in Part II, Chapter XI, paragraph 2 of the summary of Lord Curzon's administration, exchange compensation allowance was withdrawn in the following cases: (*i*) officers of the Enrolled List of the Finance Department; (*ii*) Senior Chaplains after five years' service as such; (*iii*) future entrants to the Geological Survey Department: the allowance will also be withdrawn from existing incumbents, other than the present Director, as soon as their pay under the revised scale exceeds that which would have been admissible under the old scale including the allowance; (*iv*) Superintendents, Deputy and Assistant Superintendents of Government Presses; (*v*) the executive ranks of the Public Works Department§, with effect from the 8th March 1908, the date on which a time-scale of pay was introduced. No change was made in the pay of officers of administrative rank, but it was ruled that the allowance would not be admissible on promotion to that rank to officers who on the 8th March 1908 were below the rank of Executive Engineer, 1st grade. An exception was made in the case of Engineers of this grade because it was thought that the enjoyment of the higher rate of pay up to the date of pro-

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* Despatch to Secretary of State, No. 40 (Financial), dated the 7th February 1907.
Despatch from Secretary of State, No. 39 (Financial), dated the 22nd March 1907.
† Despatch to Secretary of State, No. 448, dated the 13th December 1906.
Despatch from Secretary of State, No. 44 (Financial), dated the 29th March 1907.
Despatch to Secretary of State, No. 283 (Financial), dated the 1st August 1907.
Despatch from Secretary of State, No. 160 (Financial), dated the 1st November 1907.
‡ Despatch to Secretary of State, No. 448 (Financial), dated the 19th December 1907.
Despatch from Secretary of State, No. 19 (Financial), dated the 14th February 1908.
§ Public Works Department Resolution, No. 675—694-E, dated the 24th April 1908.

motion to Superintending Engineer might not compensate them for loss of allowance admissible to administrative officers under the previous rules. The allowance in the administrative classes had already been withdrawn from all officers appointed to the department in and after the year 1907, and the orders now described will ultimately lead to the complete abolition of the allowance throughout all ranks of the department; (*vi*) officers of the superior revenue establishment of State Railways in receipt of salaries of Rs. 1,500 and more a month; (*vii*) the Indian Telegraph Department, with the exception of the existing incumbent of the post of Director General; (*viii*) military officers in the Survey of India, other than the Surveyor General.

5. The rules and orders* governing the grant of exchange compensation laid down that a European appointed in England was entitled to the allowance unless his salary was fixed in sterling. The result of these orders was that a European appointed in England could claim the allowance if his salary was not fixed in sterling, or unless he was specifically excluded from drawing it by the terms of his agreement. The orders were therefore modified so as to provide that no person appointed under a written contract in England shall be entitled to exchange compensation allowance unless he is specially admitted thereto under the terms of the contract, or unless the appointment which he holds gives him a claim to the allowance under any general rule or decision of the Government of India.

6. *Calcutta housing and allowance scheme.*—The great rise in house rent in Calcutta during recent years made† it necessary to consider the question of giving some relief to Government officers stationed in that town whose pay had been fixed at a time when the cost of living there was considerably less than at present. In 1906 a comprehensive scheme was submitted to the Secretary of State for the provision of house accommodation and for the extended grant of house rent allowances to the officers in question. The general scheme was sanctioned by the Secretary of State and effect has now been given to his orders. Similar schemes, relating to Bombay and Rangoon, received his sanction in August 1910.

7. *The extension of the Provident Fund System.*—The proposal to establish a General Provident Fund open to all civil officers for whose special benefit similar funds do not already exist was not carried further in the Finance Department of the Government of India during the years 1905-7, as the views of local Governments, who had been consulted in the matter towards the close of Lord Curzon's administration, were awaited. These were complete by May 1907; and a revised set of rules was framed,‡ which received the sanction of the Secretary of State in November 1908 and was published in June 1909.§

8. *Compassionate pensions to officers removed from the service.*—In 1907 the Government of India obtained from the Secretary of State authority to grant compassionate pensions to officers removed or dismissed from the service on account of inefficiency, misconduct or insolvency, subject to the following restrictions: (1) No allowance to be granted to an officer appointed

* Public Works Department Resolution No. 471-E., dated the 30th April 1906.
Finance and Commerce Department Resolutions No. 2422-Ex., dated the 31st May 1897, and No. 3692-Ex., dated the 22nd August 1898.
Finance Department Resolution No. 3543-Ex., dated the 7th June 1907.
† Despatch from Secretary of State, No. 81-P. W., dated the 21st December 1906.
‡ Despatch to Secretary of State, No. 204 (Financial), dated the 9th July 1908.
Despatch from Secretary of State, No. 154 (Financial), dated the 13th November 1908.
§ Finance Department Resolution No. 2986-P., dated the 14th June 1909.

in England or to one whose pay exceeds Rs. 250 a month. (2) The allowances not to exceed two-thirds of the pension admissible had the officer been invalided.*

9. *Payment of privilege leave allowances in England.*—In December 1906 the Government of India recommended to the Secretary of State that the rule then in force, requiring allowances during privilege leave to be drawn in India, should be abrogated in respect of privilege leave taken in combination with other leave. The Secretary of State in February 1907 accepted the recommendation and the rules were so amended as to permit privilege leave allowances in such cases to be drawn at the Home Treasury at the ordinary official rate of exchange.†

10. *Assimilation of Indian and European leave rules.*—In December 1908, the Government of India referred‡ to the Secretary of State a proposal to abolish the Indian Service Leave Rules and to allow to all permanent civil employés of Government, drawing Rs. 100 or more, the benefit of the European Service Leave Rules. The Secretary of State rejected the proposal,§ but empowered the Government of India to admit individual officers to the benefit of the European rules in deserving cases. He also made certain suggestions for the modification of the Indian rules, and these are under consideration in connection with the recommendations of the Royal Commission upon Decentralisation.

11. *Advances for the purchase of motor cars.*—With the object of encouraging the purchase of private cars by touring officers, it was decided in 1908 to allow advances for this purpose to officers whose duties involve a considerable amount of touring, and rules were accordingly laid down empowering Local Governments and Administrations to grant such advances.‖ Certain classes of officers have still, however, to be supplied with cars at State expense, and the rules which should govern outlay of this kind received careful consideration in the course of 1909 and 1910. The Government of India eventually came to the conclusion that motors should be provided in future for Heads of Provinces and certain selected officers only; and that the cost of maintaining the cars should be met from contract allowances, which should be increased for the purpose. A departmental committee was sitting in October 1910 to discuss certain minor details, such as the amount to be paid by officers for the private use of Government cars, the type of car to be supplied, the average cost of repairs and maintenance in India and the possibility of making special arrangements for supply with selected firms in this country. The report of the committee is still awaited, but in the meantime the Secretary of State¶ has been asked to give general approval to the principles which have been adopted.

12. *Proposed grant of loans to non-agriculturists in the case of serious calamity.*—Laws have long existed for the relief of distress by the grant of advances to agriculturists. There is, however, no legislation covering the case of non-agriculturists who may suffer from flood, fire, earthquake or other similar calamity. As a result, while there is nothing to prevent the Government of India, if they so desire, from granting loans to this class, the absence of provision for recovery of the sum advanced precludes the adoption of this

* Secretary of State's despatch No. 101 (Financial), dated the 19th July 1907.
† Secretary of State's despatch, No. 22 (Financial), dated the 8th February 1907.
‡ Despatch to Secretary of State, No. 357 (Financial), dated the 17th December 1908.
§ Despatch from the Secretary of State, No. 70 (Financial), dated the 11th June 1909.
‖ Government of India (Finance), Resolution No. 2786-A., dated the 16th May 1908.
¶ Despatch to Secretary of State, No. 128 (Financial), dated the 26th May 1910.

course. To obviate the difficulty, the Government of India proposed to provide by legislation for such recovery; but the suggestion failed to gain the approval of the Secretary of State.**

13. *Enhancement of the financial powers of the Government of India.*—In 1906* the Secretary of State expressed his readiness to consider any proposals to increase their financial powers in the matter of establishment that the Government of India might make. After a careful consideration of the question the Secretary of State was asked† to agree to the following :—

(*a*) the increase of the limit on the total expenditure on single schemes for revision of establishments from Rs. 25,000 to Rs. 50,000;

(*b*) the increase of the limit on the salaries which may be attached to new appointments created without reference to the Secretary of State from Rs. 3,000 to Rs. 5,000 a year;

(*c*) the increase of the limit (after enhancement) on salaries which the Government of India may enhance without reference to the Secretary of State from Rs. 5,000 a year to Rs. 9,000 a year;

(*d*) the extension of the period up to which the Government of India may sanction temporary appointments and deputations without reference to the Secretary of State from 12 months to 24 months.

These proposals were sanctioned‡ by the Secretary of State, with the modification that the enhanced powers under (*b*) and (*c*) were not to be exercised in the case of gazetted officers recruited in England, in respect of whom the existing powers were to be maintained. He drew attention, however, to the rule by which expenditure from the revenues of India was regulated, as embodied in Finance Department Resolution No. 916-Ex. of the 4th March 1893, and remarked that experience had demonstrated the necessity of so revising the Resolution as to provide explicitly that certain classes of expenditure, which were not mentioned in it, required his previous sanction. He asked that a revised Resolution might be prepared and submitted for his approval, containing a full statement of the limits within which expenditure may be incurred and grants made by the Government of India without his specific sanction. A Resolution§ was accordingly drafted and forwarded to the Secretary of State, who, after amending it on certain important points connected with the derivative powers of the Government of India and the duties of Audit Officers, authorised‖ its issue. The revised rules were then duly promulgated as Resolution No. 7166-Ex., dated the 18th December 1908. The resolution was subsequently further revised and was submitted, in its new form, for the approval of the Secretary of State in September 1910.

14. *Devolution of financial powers.*—In his speech at the Budget Debate of 1907-08, Sir Steyning Edgerley urged the desirability of decided action in the direction of decentralisation, on the ground that the Government of India can neither reap the full fruits of the semi-permanent financial contracts that have recently been concluded, nor control the ever increasing cost of Secretariat establishments, without a complete revision of the rules and orders which govern the relations of the Local Governments with the Government

** Despatch to Secretary of State, No. 50 (Financial , dated 13th February 1908.
Despatch from Secretary of State, No. 50 (Revenue), dated 17th April 1908.
* Despatch No. 53 (Financial), dated 18th May 1906.
† Despatch No. 17 (Financial), dated 24th January 1907.
‡ Despatch from Secretary of State, No. 107 (Financial), dated 2nd August 19 7.
§ Despatch No 61 (Financial), dated 27th February 1908.
‖ Despatch from Secretary of State, No. 98 (Financial), dated 14th August 1908.

of India. He suggested the appointment of a strong Committee to work out a scheme of devolution of financial and other departmental control. While the Government of India were considering the suggestion, the Home Government determined to appoint a Royal Commission to report on the advisability of a larger degree of decentralisation in the civil administration of British India. To prepare materials which would facilitate the deliberations of the Royal Commission, the Government of India thought it desirable in July 1907 to appoint a preliminary departmental committee whose duty was to draw up, for the use of the Commission, memoranda showing in detail the character and extent of the control exercised by the Government of India in respect of provincial Governments, and by these latter over their Boards of Revenue, Financial Commissioners and other heads of Departments, as well as over District Boards, Municipalities and Port Trusts. The Royal Commission assembled in India in November 1907, and after taking the evidence of a very large number of official and non-official witnesses returned to England to consider its report in the spring of 1908.

The report was presented to the Houses of Parliament early in 1909, and its recommendations have since been under detailed examination by the Government of India. In so far as financial matters are concerned, liberal proposals for the relaxation of control over provincial expenditure have already been forwarded* to the Secretary of State, and the more general principles of provincial finance are still under consideration.

15. *Inquiry into prices in India.*—Early in 1909 the Government of India were called upon to face an economic problem of considerable difficulty. For some time past there had been evidence of a wide-spread feeling that the rise of prices in this country called urgently for investigation. The matter formed the subject of newspaper articles and public speeches in different parts of India; it inspired a resolution at a meeting of the National Congress; and it was ventilated more than once in the Imperial Legislative Council. The purchasing power of money was alleged to be growing steadily less and the cost of living steadily greater. Various reasons were assigned for the increase and various remedies were suggested. There was unanimity, however, in demanding that Government should take the matter seriously in hand and appoint a committee to investigate the causes of the phenomenon. In view of the strong popular demand, it was considered inadvisable to resist the movement. The question of the rise of prices had already received attention from the Finance Department, and the general causes underlying it were sufficiently recognised. It was, however, obviously desirable to reassure public feeling on the subject, and to remove certain mistaken ideas of the economic forces at work. As the best means of effecting these objects, the Government of India strongly recommended† the appointment, as special commissioner for the inquiry, of some economist possessing a recognised European reputation. Nothing short of a pronouncement by an expert of this kind would, it was thought, be accepted as final by the Indian public. The Secretary of State was unable to endorse this view.‡ He considered that it would be sufficient to depute an officer to compile and collate facts and figures bearing on the subject from the statistics already at the disposal of Government. The Government of India reluctantly accepted this decision. They accordingly

* Despatch to Secretary of State, No. 275 (Financial), dated 6th October 1910.
† Despatch to Secretary of State, No. 29, dated 28th January 1909.
‡ Despatch from Secretary of State, No. 56-Revenue, dated 21st May 1909.

nominated Mr. K. L. Datta, an experienced officer of the Finance Department, to conduct the necessary inquiry. Mr. Datta was appointed in March 1910, and was subsequently given the assistance of Mr. G. Findlay Shirras of the educational service, and of Mr. S. K. Datta Gupta. The questions on which Mr. Datta was directed to report were as follows :—

(1) What has been the actual rise in prices in India during the past 15 years? Has this rise affected all commodities alike or is it specially marked in the case of food grains? Are there marked differences in respect to enhancement of prices as between different areas?

(2) To what extent is the rise in the prices due to what may be styled 'world factors' and how far may it be ascribed to local conditions?

(3) Does it appear that the rise is a permanent feature, or is it temporary only?

(4) If it be more or less permanent, what are its probable economic effects on the country as a whole and on the different sections of the community?

The general idea underlying the preliminary stages of the inquiry is the division of British India into a number of homogeneous circles, for each of which statistics will be separately compiled. Mr. Datta and his assistants have been occupied up to now with the examination and collation of figures already in the possession of Government. They will start in October 1910 on an extended tour through India, in the course of which they will devote attention to the collection and checking of statistics, the testing of the homogeneity of the areas tentatively adopted as circles and local examination of the causes of variations in production and prices.